

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

Ministry of Micro, Small & Medium Enterprises

**PUBLIC ACCOUNTS COMMITTEE  
(2020-21)**

**THIRTY-FIRST REPORT**

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**SEVENTEENTH LOK SABHA**



सत्यमेव जयते

**LOK SABHA SECRETARIAT  
NEW DELHI**

**PAC NO. 2239**

**THIRTY-FIRST REPORT**

**PUBLIC ACCOUNTS COMMITTEE**  
**(2020-21)**

**SEVENTEENTH LOK SABHA**

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

**MINISTRY OF MICRO, SMALL & MEDIUM ENTERPRISES**



Presented to Lok Sabha on: ...15/03/21...

Laid in Rajya Sabha on: ...15/03/21...

**LOK SABHA SECRETARIAT  
NEW DELHI**

March, 2021/

Phalguna, 1942 (Saka)

**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE**  
**(2020-21)**

**Shri Adhir Ranjan Chowdhury - Chairperson**

**MEMBERS**

**LOK SABHA**

2. Shri T. R. Baalu
3. Shri Subhash Chandra Baheria
4. Shri Sudheer Gupta
5. Smt. Darshana Vikram Jardosh
6. Shri Bhartruhari Mahtab
7. Shri Ajay (Teni) Misra
8. Shri Jagdambika Pal
9. Shri Vishnu Dayal Ram
10. Shri Rahul Ramesh Shewale
11. Shri Rajiv Ranjan Singh alias Lalan Singh
12. Dr. Satya Pal Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabhaneni
15. Shri Ram Kripal Yadav

**RAJYA SABHA**

16. Shri Rajeev Chandrasekhar
17. Shri Naresh Gujral
18. Shri Bhubaneswar Kalita\*
19. Shri Mallikarjun Kharge\*
20. Shri C. M. Ramesh
21. Shri Sukhendu Sekhar Ray
22. Shri Bhupender Yadav

**SECRETARIAT**

1. Shri T. G. Chandrasekhar - Joint Secretary
2. Shri M.L.K. Raja - Director
3. Smt. Bharti S. Tuteja - Additional Director
4. Smt. Smita khade - Committee Officer

**COMPOSITION OF SUB-COMMITTEE III OF PUBLIC ACCOUNTS**  
**COMMITTEE**  
**2020-21**

**Subject: Report No. 12 of 2017, Chapter XVI, 16.1 – Implementation of Prime Minister's Employment Generation Programme (PMEGP)**

(i)	Shri Adhir Ranjan Chowdhury	-	Chairperson
(ii)	Shri Subhash Chandra Baheria	-	Convenor
(iii)	Shri Jayant Sinha	-	Member
(iv)	Shri Ram Kripal Yadav	-	Member
(v)	Shri Bhartruhari Mahtab	-	Member
(vi)	Shri Balashowry Vallabbhaneni	-	Member
(vii)	Shri Bhupendra Yadav	-	Member

**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE**  
**(2018-19)**

**Shri Mallikarjun Kharge - Chairperson**

**MEMBERS**

**LOK SABHA**

2. Shri Subhash Chandra Baheria
3. Shri Sudip Bandyopadhyay
4. Shri Prem Singh Chandumajra
5. Shri Gajanan Chandrakant Kirtikar
6. Shri Bhartruhari Mahtab
7. Smt. Riti Pathak
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Janardan Singh Sigriwal
10. Shri Abhishek Singh
11. Shri Gopal Shetty
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar Chanabasappa Udasi
15. Dr. Ponnusamy Venugopal

**RAJYA SABHA**

16. Prof. M. V. Rajeev Gowda
17. Shri Bhubaneswar Kalita
18. Shri Shwait Malik
19. Shri Narayan Lal Panchariya
20. Shri Sukhendu Sekhar Roy
21. Shri C. M. Ramesh\*
22. Shri Bhupender Yadav\*

\* Elected w.e.f. 6 August, 2018.

**COMPOSITION OF SUB-COMMITTEE III OF PUBLIC ACCOUNTS**  
**COMMITTEE**  
**2019-20**

**Subject: Report No. 12 of 2017, Chapter XVI, 16.1 – Implementation of Prime Minister's Employment Generation Programme (PMEGP)**

(i)	Shri Adhir Ranjan Chowdhury	-	Chairperson
(ii)	Shri Subhash Chandra Baheria	-	Convenor
(iii)	Shri Jayant Sinha	-	Member
(iv)	Shri Ram Kripal Yadav	-	Member
(v)	Prof. M. V. Rajeev Gowda	-	Member
(vi)	Shri Bhartruhari Mahtab	-	Member
(vii)	Shri Balashowry Vallabhaneni	-	Member
(viii)	Shri Bhupendra Yadav	-	Member

**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE**  
**(2018-19)**

**Shri Mallikarjun Kharge - Chairperson**

**MEMBERS**

**LOK SABHA**

2. Shri Subhash Chandra Baheria
3. Shri Sudip Bandyopadhyay
4. Shri Prem Singh Chandumajra
5. Shri Gajanan Chandrakant Kirtikar
6. Shri Bhartruhari Mahtab
7. Smt. Riti Pathak
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Janardan Singh Sigriwal
10. Shri Abhishek Singh
11. Shri Gopal Shetty
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar Chanabasappa Udasi
15. Dr. Ponnusamy Venugopal

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16. Prof. M. V. Rajeev Gowda
17. Shri Bhubaneswar Kalita
18. Shri Shwait Malik
19. Shri Narayan Lal Panchariya
20. Shri Sukhendu Sekhar Roy
21. Shri C. M. Ramesh\*
22. Shri Bhupender Yadav\*

\* Elected w.e.f. 6 August, 2018 for filling vacancies.

**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE**  
**(2017-18)**

**Shri Mallikarjun Kharge - Chairperson**

**MEMBERS**

**LOK SABHA**

2. Shri Sudip Bandyopadhyay
3. Shri Subhash Chandra Baheria
4. Shri Prem Singh Chandumajra
5. Shri Nishikant Dubey
6. Shri Gajanan Chandrakant Kirtikar
7. Shri Bhartruhari Mahtab
8. Smt. Riti Pathak
9. Shri Neiphiu Rioh<sup>2</sup>
10. Shri Abhishek Singh
11. Prof. Ram Shanker
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar C. Udasi
15. Dr. P. Venugopal

**RAJYA SABHA**

16. Shri Naresh Agrawal<sup>3</sup>
17. Shri Satyavrat Chaturvedi<sup>4</sup>
18. Shri Bhubaneswar Kalita
19. Shri Mohd. Ali Khan<sup>4</sup>
20. Shri Sukhendu Sekhar Roy<sup>5</sup>
21. Shri Ajay Sancheti<sup>4</sup>
22. Shri Bhupender Yadav<sup>6</sup>

(Vish)

<sup>2</sup> Ceased to be a Member of Committee consequent upon acceptance of his resignation from Lok Sabha w.e.f. 22 February, 2018.

<sup>3</sup> Ceased to be a Member of Committee consequent upon his retirement from Rajya Sabha on 2 April, 2018.

<sup>4</sup> Elected w.e.f. 29 December, 2017 in lieu of vacancy caused due to retirement of Shri Shantaram Naik.

<sup>5</sup> ceased to be a Member of Committee consequent upon his retirement from Rajya Sabha on 18 August, 2017 and re-elected w.e.f. 29 December, 2017.

<sup>6</sup> Ceased to be a Member of Committee consequent upon his retirement from Rajya Sabha on 3 April, 2018.



## INTRODUCTION

1. I, the Chairperson, Public Accounts Committee (2020-21), having been authorised by the Committee, do present this Thirty-first Report (Seventeenth Lok Sabha) on 'Implementation of Prime Minister's Employment Generation Programme (PMEGP)' based on Chapter XVI of C&AG Report No. 12 of 2017 relating to the Ministry of Micro, Small & Medium Enterprises
2. The C&AG Report No. 12 of 2017 was laid on the Table of the House on 21 July, 2017.
3. At first, the Public Accounts Committee (PAC) (2017-18) selected Chapter XVI of C&AG Report No. 12 of 2017 on "Implementation of Prime Minister's Employment Generation Programme (PMEGP)" for examination. Sub-Committee-III of PAC (2019-20) which was constituted on 18 December, 2019 was allocated the subject for in-depth examination and Report.
4. The Committee took oral evidence of the representatives of Ministry of Micro, Small & Medium Enterprises (MoMSME)/Khadi and Village Industries Commission (KVIC) on 4 December, 2017 and 6 November, 2019. Sub-Committee III of PAC (2019-20) took oral evidence of the representatives of Department of Financial Services (DFS) on 27 January, 2020 and of MoMSME/KVIC and DFS on 10 August, 2020. The subject was also discussed by Public Accounts Committee during their Study Visit to Kochi in January, 2020.
5. The Sub-Committee III considered and adopted the Report at their sitting held on 8 February, 2021 and thereafter the Public Accounts Committee (2020-21) considered and adopted this Report at their sitting held on 10 March, 2021. Minutes of the sittings form Appendices to the Report.
6. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold and form Part II of the Report.
7. The Committee would like to express their thanks to the representatives of the Ministry of Micro, Small & Medium Enterprises/Khadi and Village Industries Commission and Department of Financial Services for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.
8. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the office of the Comptroller and Auditor General of India.

NEW DELHI;  
10 March, 2021  
19 Phalgun, 1942 (Saka)

Adhir Ranjan Chowdhury  
Chairperson  
Public Accounts Committee

# REPORT

## PART I

### I INTRODUCTORY

1. Prime Minister's Employment Generation Programme (PMEGP), launched in August 2008 by the Ministry of Micro, Small and Medium Enterprises (MoMSME), is a credit-linked subsidy programme aimed at generating self-employment opportunities through establishment of micro-enterprises in the non-farm sector. PMEGP, formed after merging Prime Minister Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP), came with the objective to provide continuous and sustainable employment to traditional artisans and unemployed youth in rural as well as urban areas.

2. The maximum project cost admissible for setting up of new project under PMEGP is ₹25 lakhs in Manufacturing Sector and ₹10 lakhs in Service Sector. Subsidy of 25% to 35% of project cost is admissible for Special Categories including women, SC/ST, OBC, Minority, Physically Handicapped, persons from North East Region (NER), Hill and Border areas and 15% to 25% of project cost for General Category applicants.

3. The MoMSME administers PMEGP as a Central Sector Programme with Khadi and Village Industries Commission (KVIC) as the 'National Nodal Agency' and routes funds to other Implementing Agencies (IAs) viz., Khadi and Village Industries Board (KVIB) and District Industries Centres (DIC).

4. Funds earmarked for PMEGP are released under two heads viz., 'Margin Money' (MM) and 'Backward and Forward Linkages' (BFL). The Government subsidy to the entrepreneur beneficiary under the Programme is referred to as MM, while the fund earmarked for BFL is for facilitating the activities of the Programme.

5. The PMEGP being a bank appraised and financed programme, the Public Sector Banks under the Ministry of Finance, Department of Financial Services (MoF-DFS) play a pivotal role and form the important link between the MoMSME and the beneficiaries.

6. Briefly, as per MoMSME, as in August, 2020, the following are the achievements of the Central Government's flagship programme, PMEGP:-

- 6.12 lakh micro enterprises assisted with total Margin Money subsidy of Rs. 14,028 cr. (Total investment of about Rs. 56,000 cr. including bank loan).
- Bank credit of Rs. 37,800 cr. provided.
- Employment provided to estimated 50 lakh persons from 2008-09 to 2019-20.
- 80% of these units are in rural areas.
- About 50% units are owned by SC, ST and women categories.

- 14% of these units are in Aspirational districts.
- Manufacturing units have increased from 53 to 62%.

7. The C&AG undertook the audit of the Programme spanning for a period from inception of the Programme i.e., from August 2008 to March, 2016. The audit objectives were to assess if the funds provided for the Programme were utilized judiciously, efficiently and transparently and whether gaps exist in the Programme framework and its implementation and to ascertain whether the intended objectives of the Programme were achieved through creation of continuous and sustainable employment. While undertaking the audit by C&AG, the records of KVIC-HQ-PMEGP Directorate, Mumbai were scrutinized and the two field offices of KVIC viz. State Office Maharashtra and State office Karnataka were selected for detailed inspection.

8. The Public Accounts Committee undertook examination of the subject "Implementation of Prime Minister's Employment Generation Programme (PMEGP)" based on Chapter XVI of C&AG Report No. 12 of 2017 first on 4<sup>th</sup> December, 2017 and thereafter on 6<sup>th</sup> November, 2019, 27<sup>th</sup> January, 2020 and 10<sup>th</sup> August, 2020.

## II. Introduction of Single Nodal Bank

9. Audit observed that funds were transferred under the Programme from the Ministry to KVIC-HQ, by KVIC-HQ to Field Offices and from Field Offices to nodal banks, without corresponding demand of funds or without immediate scope for utilization of funds. This resulted in idling of funds in savings bank accounts.

10. The MoMSME on the above issue submitted as under :-

"In a major shift, in line the observations in the para, KVIC introduced a new system of single nodal bank in the year 2016 and closed all the individual bank accounts, more than 1100 in number, spread across all the States/districts. Now, each bank which provides loan, send a claim of Margin Money (MM) subsidy to KVIC. KVIC approves the claim and passes on to the nodal bank. Funds are thereafter released to the concerned banks against their claims by the single nodal bank. Therefore, now there is no idling of funds in the Nodal Banks spread across the country. Further funds are being released to the single nodal bank based on the need basis."

11. On being asked whether the new arrangement of disbursing Margin Money (MM) through single Nodal Bank has been able to plug the loopholes found in the previous arrangements (given the responsibility and volume being shifted from all 1100 Nodal Banks to a single Nodal Bank), the MoMSME replied as under:-

"The arrangement of single Nodal Bank for disbursement of margin money to all the financing banks across the country is working effectively. The

single Nodal Bank generally disburses the validated margin money claim to the financing banks within 24 hours. The facility for single Nodal Bank has reduced the parking of funds which was previously noticed at various Nodal Bank accounts at State level and facilitates better monitoring.”

12. The MoMSME, in their reply to a query regarding the reasons for changing the Nodal Bank from Corporation Bank to Indian Bank, submitted as under :-

“A contract was entered into between KVIC and Corporation Bank, through signing an MoU on 29.08.2016, for operating the online fund flow system of PMEGP as a single nodal bank at National level for disbursing the Margin Money (MM) subsidy directly to Financing Bank branches. As per the terms and conditions, MoU was in force for a period of 3 years. The tenure of MoU was valid up to 29.08.2019. In light of the higher target assigned during 2019-20 and satisfactory performance of Corporation Bank, Ministry of MSME accorded permission for extension of MoU with Corporation Bank up to 31 March,2020 and also to invite proposals on an open tendering basis from other nationalized banks to operate the MM disbursement as single nodal bank w.e.f. 1.04.2020 through selection as per GFR.

For the Financial Year 2020-21, KVIC proceeded with fresh tendering process to select the new Nodal bank at National level, and following the GFR procedures, the Indian Bank was selected as single Nodal Bank.”

13. On being further asked about the process of evaluation of the general performance of Corporation Bank as Nodal Bank by the MoMSME, following has been submitted:-

“The performance of the Corporation Bank during its tenure of four years was satisfactory. The Bank had engaged dedicated resources for the purpose of managing and disbursing the PMEGP MM subsidy. The claims validated by KVIC were sent to Corporation Bank on daily basis.

The Corporation Bank also coordinated with all financing banks to rectify the data mismatch in terms of IFSC code, transient account no. etc.

Corporation Bank has disbursed a total Margin Money of Rs. 6322.09 cr, in respect of 2,26,271 beneficiaries, as single nodal bank during its tenure as a Nodal Bank.”

14. The MoMSME furnished the following information data w.r.to Corporation Bank acting as Nodal Bank for PMEGP from August, 2016 to June, 2020 :

“

**DIRECTORATE OF PMEGP**

**Date: 10/12/2020**

**Statement showing the details of funds held and utilized by the single nodal bank ( Corporation Bank), year wise, since July 2016 till 30.06.2020.**

<b>Total of Release to Corporation Bank/ Utilization by Corporation Bank (Years)</b>	<b>M.M Fund Received From Ministry of MSME, Govt. of India</b>	<b>Amount Released to Corporation Bank (Rs. in Crores)</b>	<b>Amount Utilized by Corporation Bank as per Portal (Rs. in Crores)</b>
2016-17	1082.90	1000.00	799.72
2017-18	1052.90	1113.00	1312.40
2018-19	2068.80	2100.00	2070.01
2019-20	2396.44	2000.00	1950.82
2020-21	700.00	100.00	188.74
<b>Total Receipt from Ministry &amp; Releases, Utilization by Corporation Bank ( Up to 30.06.2020</b>	<b>7301.04</b>	<b>6313.00</b>	<b>6321.69</b>

15. On details of Margin Money received, its disbursal and short disbursal, if any, Departmental of Financial Services (DFS), furnished the following (as on 26.11.2020) :-

“Total margin money received by Indian bank: Rs 5808 cr

Total disbursements made: Rs 5654 cr

Due to merger of banks and difficulty in tracing the ultimate credit details, an amount of Rs 23 cr is having slow progress. Remaining amount of funds have been received recently and disbursement is in progress.”

16. When asked about the experience of KVIC in handling and ensuring timely disbursal of Margin Money subsidy by Indian Bank, MoMSME replied as under :-

“Indian Bank has been authorized to act as Nodal bank from 1<sup>st</sup> July 2020. Indian Bank has released MM of Rs.615.61 cr. to 19,675 number of beneficiaries till 27.11.2020. The performance of Indian Bank has been found to be satisfactory.”

### **III. Utilisation of Rural Employment Generation Programme (REGP) Funds**

17. While examining the issue it was observed that funds of Rs.36.82 cr. released in 2011-12 to KVIC for settlement of pending claims of Rural Employment Generation Programme (REGP), remained unutilized to the extent of Rs.12.87 crore for over four years. Further, there were also unspent REGP funds lying in various nodal bank accounts at Field Offices of KVIC to the extent of Rs.7.69 crore for over four to eight years.

18. The MoMSME, on the above-mentioned issue submitted as under :-

“An amount of Rs.36.82 cr. was released to KVIC by the Ministry of MSME during the year 2011-12 for clearing the old REGP margin money claims. REGP scheme was closed on 31<sup>st</sup> March, 2008. Out of this, an amount of Rs. 30.36 cr. was released by KVIC HQ to 26 Field Offices for settling the old claims. Various KVIC State offices had utilized Rs. 24.29 cr. and refunded Rs. 6.07 cr. to KVIC HQ. Hence, no funds are lying with the field offices under REGP as on date. An unspent amount of Rs.12.53 cr. was lying with KVIC to settle the pending REGP Court cases. KVIC was requested to refund this whole amount to the Ministry and the same is being complied with. Funds required to settle the REGP claim cases will be released by the Ministry to KVIC on case to case basis.”

#### **IV. Charging of Interest on entire project loan and Charging of excess Margin Money (MM)**

19. Audit, on the issue of ‘Charging of Interest on entire project loan’, observed that as per the Programme guidelines, there should be no levy of interest on loan amount to the extent of MM. Audit noticed that in 14 cases, three financing branches of banks had charged interest on the entire project loan amount (i.e. including MM subsidy) which placed additional burden on the beneficiary and changed the nature of subsidy to that of a loan. Secondly, on the issue of ‘Excess disbursement of MM over and above eligibility’, it observed that In two cases test checked by Audit, there were lower disbursement of loans as compared to initial sanctions, and therefore MM released (as per initial sanction) was in excess of prescribed eligibility under the Programme. However, the excess amount of MM released initially was not called back. In one of the cases, the MM was handed over to the beneficiary and the loan closed (May 2015) without physical verification having been conducted. In the second case partial amount of loan released became NPA (October 2015) and the MM amount was retained by the bank as term deposit. This led to unintended benefit accruing to the financing branch/beneficiary and steps need to be taken to call back pro-rata excess MM along with interest.

20. The MoMSME in their Background Note furnished following information on the above:-

“The excess interest charged to the tune of Rs. 12,15,761/- and excess margin money claim for Rs. 62,000/- pertaining to State Office, Maharashtra, have been recovered as reported by audit and refunded to KVIC. The State Offices have been instructed to rectify any such case noticed thereafter and ensure recovery accordingly. The current Online System has checks to prevent such violations, as the system captures the amount of loan sanctioned and accordingly, the subsidy admissible on the sanctioned loan. Regarding the rate of interest claimed by the Banks, it is

available on the PMEGP portal. Besides, KVIC has directed its State Offices to check these issues during physical verification of units and take necessary corrective action.”

21. On the issue of charging of interest on entire project loan, as pointed by the Audit, the MoMSME, in their Action Taken Notes submitted as under :-

“As per the PMEGP guidelines, the margin money subsidy is deposited in the TDR of the beneficiaries for a period of 3 years during which no interest is charged or paid on this amount.

All banks have to follow aforesaid parameters and charged the interest accordingly; if variation is found in the same KVIC will take up the matter with the concerned bank on case to case basis.

It is also been observed that since the margin money subsidy is parked with the Nodal Bank, the financing bank in certain cases charged interest on this component but after receipt of the margin money subsidy from the Nodal Bank they reversed the entry of interest w.e.f back date so as to give the benefit to the beneficiaries.

In case of Maharashtra State office, the specific cases pointed out by the audit are attended to with the concerned bank branches and banks have agreed to refund the excess margin money back to the Commission.”

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“Charging of interest on entire project loan to the beneficiary has occurred in the State of Maharashtra and out of the 14 cases noticed, 4 cases under the Dena Bank have been reverted and the interest amount of Rs. 12,15,761,.17 has been refunded to the CO, KVIC. In 1 case under UCO bank Rs. 62,000/- interest charged has been reverted and refunded by the bank to KVIC on 15.02.2018, 5 cases turned as NPA under Dena bank have been referred to their Zonal office for consideration of payment, which is under continuous persuasion and other 4 cases under Oriental Bank of Commerce have been referred to their head office for seeking permission for refund of interest to KVIC.

KVIC State office Maharashtra is making all efforts for the recovery of the same.

The bankers implementing the scheme have been sensitized and the guidelines for non charging of interest also reiterated. It has been brought to the notice of KVIC, that except Maharashtra, no such other cases were found. \*\*\*\* \*\*\*\* ”

22. Further, as pointed out by Audit, on the issue of excess disbursement of MM over and above eligibility, the MoMSME in their Action Taken Notes submitted as under :-

“The Specific and clear guidelines with modalities of the scheme were already circulated/issued to the banks as follows:

“Though bank will claim MM (subsidy) on the basis of projections of capital expenditure in the project report and sanction and thereof. Margin money (subsidy) on the actual availment of capital expenditure only will be retained and excess, if any, will be refunded to KVIC, immediately after the project is ready for commencement of production”.

There may be very few cases where such disproportion of MM reflected, however, all such aspects are covered at the time of a issuing final MM adjustment letter in favour of beneficiaries by the concerned implementing agency.

As already stated in the reply, Director, S.O. KVIC, Maharashtra has taken up action with the concerned bank for redressal.”

\*\*\*\*                      \*\*\*\*                      \*\*\*\*                      \*\*\*\*

“During the State Directors conference, the matter of excess MM claimed and released by the banks, if any, to the beneficiary has been taken up and it is to submit that no such cases were reported from any other part of the Country except Maharashtra.

KVIC has initiated action and all field office Directors have been given the task to recover any such excess payments under MM which was made in the previous period before the introduction of DBT system w.e.f. 01.07.2016. The e-portal developed by KVIC has an inbuilt mechanism to cross check the excess amount of MM claimed by the bank over the eligibility.”

23. The DFS, on being asked whether the new system been effective in noticing the cases of excess interest charged, replied as under :-

“The on-line portal developed by KVIC does not have the facility to detect violations.”

## **V. Physical Verification (PV) of Projects**

24. During the course of examination it was observed that there has been huge backlog in conduct of physical verification and there has been no proper time-bound system of appointment of agency and carrying out physical verification.

25. As per Audit, the overall backlog in conduct of PV (as of May 2016), including all three IAs, is of 44509 cases involving MM of ` 835 crore approximately (on the basis of average MM per project of respective years) for the years upto 2011- 12. The backlog was attributed to disturbed area, change of agency and poor response to tendering at field office levels. The importance of physical verification can be appreciated from the fact that physical verification upto 2011-12 revealed that 22,446 units were non-working/non-traceable out of 1,64,283 units set up under PMEGP constituting 13 per cent of units promoted under PMEGP. The MM involved in respect of these non-existing/nontraceable



units was ₹ 418.53 crore (approximately, based on the average cost of the respective years). Management failed to ensure timely conduct of PV and issue MM adjustment letters. In fact, Management had no mechanism in place for ensuring and tracking recovery against call back of MM, despite such high proportion of non-functional units.

26. On being asked whether there is any mechanism to conduct physical verification of the units on regular basis so as to know how many units are working, MoMSME replied as under :-

“As per the Scheme guidelines, 100% physical verification is mandatory. Physical verification of the actual establishments and working status of each of the unit, financed and set up under PMEGP, is carried out through the outsourced agencies, following the prescribed procedures as per General Financial Rules of Government of India. A suitable Performa is designed by KVIC for such physical verification of units. Physical verification is conducted after completion of 24 months and before 36 months. Based on the physical verification report, the subsidy amount is adjusted in the loan account after completion of three years of Term Deposit Receipt (TDR), if the unit is found working successfully. As per physical verification reports, it is observed that on an average about 80% of PMEGP units are found working and the rest are either found closed or not existing at the registered location, against those set up during 2008-09 to 2014-15.”

27. The MoMSME submitted the following on the issue mentioned above :-

“As per the guidelines, the physical verification of PMEGP units established is due before the completion of the third year of setting up of the units. Physical verification of units setup from 2008-09, upto 2014-15 has been done by the KVIC through outsourced third party agencies. At the time of last PAC meeting, held on 04.12.2017, the physical verification was undertaken for units setup from 2008-09 to 2011-12. At that time 1,19,774 units were verified out of a total of 1,64,283 units, 44,509 units remained unverified. After the last PAC meeting special drive was launched for completion of physical verification of all units setup upto 2014-15.”

“ \*\*\*\*                      \*\*\*\*                      \*\*\*\*                      \*\*\*\*

KVIC, the nodal agency for carrying out this activity, has confirmed that Physical Verification of **295877** (more than 92%) units against the total of 320828 units set up from 2008-09 to 2014-15 has been completed through outsourced third party agencies.

For the year 2015-16, of the total 44,340 units, physical verification of 19680 units from 22 states have been completed. KVIC has directed its State Offices to complete the physical verification of the remaining units by 31.12.2020 and upload the report on the PMEGP portal states

Further for the year 2016-17, Physical verification of 11807 units from 7 States has been completed. Physical verification is in progress for the remaining units.

To streamline the complete process of physical verification, KVIC in a policy decision has decided to centralize this activity under the Directorate of PMEGP. Now KVIC head quarter will engage agencies at the national level for all states/UTs. Further Ministry has advised KVIC to enter into long-term contract for carrying out physical verification to ensure continued assessment.

As per the guidelines, the physical verification of PMEGP units established is due before the completion of the third year of setting up of the units. Physical verification of units setup from 2008-09, upto 2014-15 has been done by the KVIC through outsourced third party agencies.

At the time of last PAC meeting, held on 04.12.2017, the physical verification was undertaken for units setup from 2008-09 to 2011-12. At that time 1,19,774 units were verified out of a total of 1,64,283 units, 44,509 units remained unverified. After the last PAC meeting special drive was launched for completion of physical verification of all units setup upto 2014-15."

28. The MoMSME in their Background Note stated that 100% physical verification of the actual establishment and working status of each of the units set up under PMEGP is done by KVIC, through outsourcing. Based on the satisfactory report of physical verification of the units during the third year, the margin money subsidy kept in the TDR account is adjusted in the loan account of the beneficiary on completion of three years.

29. The MoMSME in their Background Note stated that Geo-tagging of PMEGP units has been planned to identify and monitor the units.

30. On being asked as to by when Geo-tagging was likely to be done to identify and monitor PMEGP units, MoMSME replied as under:-

"The agency for designing the Geo portal has been hired by KVIC and work order has been issued. Process of mapping the PMEGP units are under progress. Initially 1.98 lakh units are being mapped whose data is available on the PMEGP portal since its launch in July 2016. During the physical verification process, the remaining units will also be mapped. The Portal is expected to be made live shortly."

31. On the issue whether the Banks, which conduct periodic visits and carry out physical verification for all units financed by them, apprise the KVIC about their findings especially in cases where the units are facing some problems, the MoMSME submitted as under:-

"Banks do not conduct physical verification as per the terms of PMEGP scheme guidelines. Banks may visit the PMEGP units to ascertain their physical and financial status with reference to the credit given by the Bank. Details of such visits, however, are not shared by the Banks with the KVIC.

Physical Verification is separately conducted by KVIC through outsourced agencies.”

32. On the issue whether the units, detected as facing problems in the inspection made on behalf of KVIC, were also identified by the Banks in their inspection and whether the KVIC has ever made such an analysis, the MoMSME *inter-alia* stated as under:-

“..... coordination with the Banks regarding inspections of PMEGP units undertaken by Banks is being focussed upon by the Ministry.”

**VI. Slow pace of loan sanction and Banks discretion for sanctioning of loan and interest**

33. On being asked about the demand made by the Ministry during last year and what was the allocation and the disbursement made against this allocation and how banks have supported, the MoMSME replied as under:-

“ While submitting the proposal for EFC appraisal of Continuation of PMEGP Scheme for three years i.e. 2017-18 to 2019-20, a proposal was made to approve the scheme with total cost of Rs. 10,275 cr. to set up about 3.80 lakh new enterprises and to upgrade about 3000 better performing units, thus providing employment to about 30 lakh persons. The Department of Expenditure recommended approval of the PMEGP scheme with a total cost of Rs. 5500 cr. for three years.

Year-wise Margin Money Subsidy allocation/disbursement during the last two years and the current year is given below:

Sl.No	Financial Year	MarginMoney Allocated/released (Rs. in cr.)	Margin Money disbursed (Rs. in cr.)#	Number of units assisted	Estimated employment generated
1	2017-18	1052.90	1312.40	48398	3,87,182
2	2018-19	2068.80	2070.00	73427	5,87,416
3.	2019-20*	2247.10	284.50	9453	75,624

# including the available unspent balance.

During the last 2 years, PMEGP margin money disbursement targets have been surpassed. The achievement was more than 100%. As the PMEGP is a bank driven scheme, proactive support from the banks is necessary to achieve the targets. Although, the targets were achieved, some of the issues with the Banks are:

- (i) Slow pace of bank sanctions under PMEGP: Bank sanctions have been quite slow during the first 2 quarters of the FY, which has also affected the fund release by Government. Crowding of sanctions to last quarter also leads to poor quality projects being sanctioned resulting in more NPAs.
- (ii) Banks are demanding collateral from the beneficiaries despite RBI instructions for collateral free loans to MSMEs up to Rs.10 lakh.
- (iii) Delay in sanctioning of loans: As per RBI instructions, banks are mandated to sanction or reject the loan applications in MSME

sector within 30 days of receipt of application. However, sanction of loans is sometimes delayed up to 3-4 months.”

34. On being asked about the slow pace of bank sanctions (Bank sanctions have been quite slow during the first 2 quarters of the FY, which has also affected the fund release by Government, crowding of sanctions to last quarter also lead to poor quality projects being sanctioned resulting in more NPAs) and the remedial measures that have been taken by the Banks to address the issues highlighted above, the MoF-DFS replied as under:-

“As informed by banks, for the first two quarters of the financial year, the number of applications received by the Bank branches are normally low and the pace of sanctions picks up in the second half of the financial year. Banks are, however, sensitive to the need for increasing the pace of sanctions and spreading them more evenly through the financial year, and are taking the following remedial measures in this regard:

- Banks are sensitising branches on regular basis to canvass and process the business proposals to avoid crowding business during the last quarter.
- Centralised screening of PMEGP application is being implemented to increase pace of sanction and avoid crowding.”

35. On further being asked about delay in sanctioning of loans (As per RBI instructions, banks are mandated to sanction or reject the loan applications in MSME sector within 30 days of receipt of application. However, sanction of loans is sometimes delayed up to 3-4 months), the measures that have been taken and any instructions that have been issued to the Financing Banks for timely processing of loan applications in MSME sector, the MoF-DFS replied as under:-

“Sanction of loans may sometimes take longer than 30 days depending upon the specific requirement and circumstances of each case. However, reduction in the turn-around time has been made a parameter for assessing banks’ performance on the EASE index. The position is also reviewed from time to time during review meetings at the district/state/zonal level held by KVIC and banks advised to expedite a decision in cases of delay.”

36. While stating that earlier processing of applications in the banks was decentralized which was subsequently centralized in February 2020, it was asked whether there is any improvement due to this modification and if yes, on what scale, MoMSME replied as under:-

“ EASE 2.0 (FY 2019-20) Reforms, as part of the Public Sector Banks(PSB) Reforms Agenda, included setting up of centralized processing hubs for MSMEs, reduction in Turn Around Time (TAT) for MSME loan processing and deployment of loan management systems as specific Action Points. While centralized processing hubs have been established in all PSBs, banks are making an effort to increase the percentage of loans being processed through these hubs overtime. In some banks processing of PMEGP applications are centralized, while others are in the process of implementation.

With processing and sanctioning of loans being increasingly digitized in each bank, TAT has been systematically improving and pendency of applications is reducing. With respect to MSME loans, as reported by PSBs, 85% of loans in Q4 2019-20 versus 48% of loans in Q4 2018-19 were disbursed within their benchmark TAT of 7 days."

37. On the issue, when asked about the new instructions that have been introduced in Standard Operating Procedures (SOPs) to minimise the delays in processing of loan applications within 30 days timeline and also expedite sanctioning of the same, the MoMSME replied as under:-

"It may be noted that each PSB has its own specific board-approved Standard Operating Procedures (SOPs). As part of the EASE reforms, banks have been advised to initiate the following steps with respect to MSME loans to improve processing of loan applications:

- Loan processing through comprehensive Loan Management System (LMS) and dedicated MSME processing hubs
- Provide proactive status updates and facility for online status tracking of loan applications
- Reduce turnaround time for MSME loan processing
- Including third party datasets for faster, augmented MSME loan appraisal

As reported by banks, they are undertaking various activities to minimize the delay in processing and sanctioning of loan application within 30 days, such as sensitization of bank branches and field functionaries through issuing of guidelines & instructions, setting up of dedicated centralized credit processing centers, close coordination with implementing agencies etc. to help minimize delay. In addition, banks are increasingly processing loans digitally through loan management systems and centralized processing hubs to reduce TAT. Lastly, implementation of a score card approach for objective assessment as advised by KVIC to implementing agencies vide its circular dated 29.7.2020, will also lead to future improvement in TAT."

## **VII. Charging of lowest possible rates of interest for loans under PMEGP**

38. The MoMSME, on the issue under examination, submitted as under:-

"In a meeting taken by Hon'ble Finance Minister and Hon'ble Minister of MSME with CMDs of all major Banks, in February 2020, to sort out various issues to take forward the scheme, it was directed that banks should quickly release loans in cases which are approved and should take early decision on pending applications. Banks were also asked to devise a mechanism to automatically transfer such applications which are outside

their service jurisdiction to appropriate branch to avoid rejection on such grounds.

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Banks are regularly being requested, by the Ministry of MSME to expedite credit decisions and also charge uniform interest rates, at the lowest possible rate, for loans to beneficiaries.”

39. On being asked whether the Banks are charging the lowest possible rates on loans sanctioned under the PMEGP, the MoMSME replied as under:-

“RBI has deregulated the interest rates on advances sanctioned by Scheduled Commercial Banks subject to the regulatory instructions contained in Master Direction on Interest Rates on Advances dated March 3, 2016. As per data reported by RBI, for PSBs, the Weighted Average Lending Rate (WALR) of fresh rupee loans sanctioned in July 2020 is lower by 1.31% compared to the WALR of fresh rupee loans sanctioned in January 2019, indicating transmission of monetary policy. RBI advised banks to link all new floating rate loans to micro and small enterprises (MSEs) from October 1, 2019 to an external benchmark rate. Hence, interest rates on PMEGP loans are also now linked to an external benchmark lending rate. However, the spread over the external benchmark rate is to be decided by the banks as per their Board approved policy in line with extant regulatory guidelines and based upon their risk assessment.

Ministry has requested CMDs of all the major public sector Banks to charge uniform and lowest possible rate of interest. Ministry and KVIC are regularly reviewing the interest rates charged through the portal and during physical verification.”

### **VIII. Collateral security**

40. While observing that it was generally seen that banks do not sanction the loans without collateral securities it was asked as to how the Ministry of MSME was going to address this problem and the stance of Finance Ministry on this issue and how they can solve it, the MoSME submitted that :-

“RBI circular No. RPCD.SME&NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010 provides that banks are mandated not to seek collateral security in case of loans up to Rs 10 lakh extended to units in the micro and small enterprises (MSE) sector.

Ministry of MSME has also launched the Credit Guarantee Scheme (CGS) to strengthen credit delivery system and facilitate the flow of credit in to the MSE sector without the hassles of collateral and third-party guarantee. For operationalizing the scheme across India, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was set up in August 2000 with a committed corpus of Rs. 2,500 cr. Recognizing the

contribution made by CGTMSE so far, Government of India has decided to increase the corpus of CGTMSE to Rs. 7,500 cr.

The credit facilities which are eligible to be covered under the scheme are up to Rs. 200 lakh (Rs.2.00 cr.) per borrower/entity, extended with/without any collateral security or third party guarantee, to a new or existing borrower in the MSE sector, including units in manufacturing and service sectors.

Beneficiaries can also submit their grievances on PMEGP e-portal relating to banks asking for collateral, which taken up with the concerned bank official, as per relevant provisions.”

41. On being asked as to why the instructions regarding not seeking collateral security in case of loans upto Rs. 10 lakh extended to MSE sector were not being adhered to by the banks as they were still insisting upon collateral security from those seeking loan upto Rs 10 lakh, MoF-DFS replied as under:-

“Banks are mandated by RBI not to ask for collateral security for loans upto Rs. 10 lakh extended to the MSE sector. Compliance of this guideline is ensured through periodic inspections by RBI and by banks through random checking by internal auditor of the bank and sensitisation of field level offices on a regular basis.”

42. The MoF-DFS on further being asked about the instructions that have been issued by DFS to the Financing Banks for adhering to RBI circulars for not seeking collateral security in case of loans up to Rs. 10 lakh extended to units in MSE sector and how DFS ensures that the banks adhere to the RBI guidelines and deviations found, if any, brought to the notice of DFS on regular basis, replied as below:-

“While no separate instructions have been issued by DFS to banks in this regard since the regulator i.e. RBI has already issued specific instructions to banks not to seek collateral security in case of loans up to Rs. 10 lakh extended to units in the MSE Sector, the said instructions of RBI are regularly reiterated in review meetings and video conferences that DFS periodically hold with banks, and also in State Level Bankers’ Committee (SLBC) meetings which include a DFS nominee.”

## **IX. Non-Performing Assets (NPAs)**

43. On being asked about the number of cases of defaults/bad loans/NPAs in loan accounts sanctioned under PMEGP that were noticed in respect of NPAs in manufacturing & service sectors separately and action taken in the cases, thereof, the MoF-DFS replied as under:-

“From FY 2015-16 till FY 2019-20 (3rd quarter), Public Sector Banks (PSBs) have sanctioned 2,07,639 accounts involving an amount of Rs 10,169.27 crore under PMEGP ( 82,398 accounts involving Rs. 5139.16 crore in manufacturing sector and 1,25,241 accounts involving Rs 5030.11 crore in service sector) while during this period, a total of Rs 1537.53 crore

(Rs 738.14 crore in manufacturing sector and Rs 799.39 crore in service sector) have been classified as NPAs.”

44. The MoMSME on being asked of the quantum of NPAs in manufacturing sector and service sector separately, replied as under:-

“ As reported by PSBs, NPAs on loans under PMEGP as on 30.06.2020 are as under:

*In Rs crore*

Sector	NPA under PMEGP as on 31.6.2020 (FY2020-2021)		
	<i>Total Outstanding</i>	<i>Gross NPAs</i>	<i>Gross NPA %</i>
<i>Manufacturing</i>	<i>4,694</i>	<i>876</i>	<i>18.7</i>
<i>Service</i>	<i>4,677</i>	<i>1,120</i>	<i>23.9</i>
<i>Total</i>	<i>9,371</i>	<i>1,996</i>	<i>21.3</i>

45. On being asked about the average repayment period in respect of loans sanctioned under PMEGP and whether any major defaults have been found in a particular State and if so, the reasons for the same, the MoF-DFS replied as under:-

“Banks have reported that repayment period in respect of loans sanctioned under PMEGP varies between 3 years to 7 years depending on the type of project. States identified by various banks as having higher NPAs differ from bank to bank. For instance, the chart given below may be seen:

<b>Name of the bank</b>	<b>States having highest number of NPA</b>
UCO Bank	Assam, Odisha.
Syndicate Bank	Karnataka, Uttar Pradesh (U.P).
Central Bank of India	Assam, Bihar.
Canara Bank	Delhi, Chandigarh.
Andhra Bank	Delhi, U.P.
State Bank of India (SBI)	Maharashtra, Assam, Odisha, Karnataka.
Punjab National Bank (PNB)	U.P, Bihar, Madhya Pradesh (M.P).
Corporation Bank	Karnataka, Tamil Nadu, Maharashtra.

Some common reasons for high NPAs identified by banks include inter-alia, business failure due to lack of forward and backward linkages, competition amongst entrepreneurs, need for skill up-gradation, and extraneous factors like floods, etc.”

46. MoMSME, on the issue of handling the units under PMEGP by KVIC/MSME where the respective loan accounts have turned into NPAs replied as under:-



“PMEGP scheme guidelines provides that in case the bank’s advance goes “bad” before three-year period, due to reasons, beyond the control of the beneficiary, the Margin Money (Subsidy) will be returned to the KVIC along with the interest. In case any recovery is effected subsequently by the bank from any source whatsoever, such recovery will be utilized by the bank for liquidating their outstanding dues.

As per scheme guidelines, rehabilitation of sick units will be linked with RBI’s Guidelines for rehabilitation of sick small-scale industrial units issued to all Scheduled Commercial Banks by RBI from time to time.”

47. As per the Background Note received from the MoMSME, the Ministry *inter-alia* has submitted the following as one of their Recent Development/Modifications:-

“ The analysis of the Scheme data brought out that one of the major reason for delay in approval of PMEGP applications was the time taken (more than 6 months) by District Level Task Force Committee (DLTFC) in forwarding the applications to the banks. Based on further consultations and feed backs, the Scheme process has now been simplified by discontinuing the role of DLTFC for recommendation of proposal/ applications to financing banks. The role of DLTFC is now modified to monitor the performance of PMEGP Scheme on quarterly basis in their respective districts.”

48. On being posed with the question on the disbursement of the subsidy without the unit being physically verified and reasons for the fund not having been recovered, MoMSME replied as under:-

“ PMEGP scheme guidelines issued from 2008-09 to 2014-15 provided that in case, the banks’ advance (loan) goes ‘bad’ before three-year period, due to reasons, beyond the control of the beneficiary, the Margin Money(MM) (subsidy) will be adjusted by the Banks to liquidate the loan liability of the borrower either in part or full. Accordingly, the financing bank adjusted the Margin Money towards the loans sanctioned to non functioning units before three years or the receipt of physical verification report. Hence, subsidy was adjusted in case of closing down of units without physical verification, and funds could not be recovered.

However, in the year 2014-15, while considering modifications in the PMEGP Scheme and its continuation in the 12<sup>th</sup> Five-Year Plan, Integrated Finance Wing (IFW) suggested that this provision relating to bad loans needs to be modified and in such cases MM should be returned to the KVIC instead of adjusting the MM by the banks to liquidate the loan. This was accepted and the provision was modified on the grounds that for sanctioning a loan, Bank appraise the projects both technically and

economically and take their own credit decision on the basis of viability of each project. Banks also ask for necessary collateral from the applicants and also invoke the option of CGTMSE guarantee for PMEGP loans to protect their loan advances. Hence, the Banks were instructed that the MM subsidy be returned to the KVIC instead of adjusting it by the banks to liquidate the loan in case of NPAs.”

49. During the evidence, the Committee desired to know as to how District level targets could be known. In this regard, the MoMSME stated that as per their first level criteria, KVIC fixes a target of minimum 75 units per District and on second level, those who have met the target of 75 units per District, may be encouraged to increase the target by 10-15 per cent along with the progress of the previously set-up units.

#### **X. Second dose of financial assistance**

50. PMEGP Guidelines *inter-alia* provides that Physical verification process should start after two years of establishment of an unit. The State Office may engage two-three agencies to complete the process on time so that margin money adjustment is done on completion of prescribed period of three years.

51. PMEGP Guidelines also provide that Margin Money (subsidy) will be 'one time assistance', from Government. For any enhancement of credit limit or for expansion/modernization of the project, margin money (subsidy) assistance is not available except in case of units selected for upgradation through 2<sup>nd</sup> loan under this Scheme.

52. As per the Guidelines for Second Financial Assistance under PMEGP for Expansion of the Existing Successful PMEGP/MUDRA Units it has been stated that up to 31.3.2018, a total of 4,66,471 units have been set up in the Country. Considering the success of the scheme, and as requested by the entrepreneurs/unit holders and also as recommended by Management Development Institute (MDI), Gurgaon, in its Evaluation Study Report, the Government approved continuation of PMEGP beyond 12th five-year Plan for a period of 3 years from 2017-18 to 2019-20 with a financial outlay of Rs. 5,500 Crores. While giving such approval, a provision has also been made for sanctioning a 2nd loan with Subsidy for upgrading the existing units, which are performing well in terms of turnover, profit making and loan repayment. Accordingly, for manufacturing units, financial assistance upto an amount of Rs. 1 Crore would be provided, and for Service/Trading Units, financial assistance upto an amount of Rs.25.00 lakhs would be provided with a subsidy of 15% (20% for NER and Hilly States).

Further, on the quantum and nature of financial assistance it, has been outlined that the 2<sup>nd</sup> Loan for up-gradation of existing PMEGP/MUDRA units *inter-alia* specifies for a) The maximum cost of the project/unit admissible under manufacturing sector for up-gradation is Rs.1.00 Crore, and the maximum subsidy would be Rs.15 lakhs (Rs.20 lakhs for NER and Hill States); b) The maximum cost of the project/unit admissible under Service/Trading sector for up-

gradation is Rs.25 lakhs, and the maximum subsidy would be Rs. 3.75 lakhs (Rs. 5 lakhs for NER and Hill States); c) For all categories, rate of subsidy (of project cost) is 15% (20% in NER and Hill States). Beneficiary's contribution will be 10% for all categories.

53. While stating that 22 units have received loan of second financial assistance under the scheme in 2018-19 out of 3 lakh units the Committee queried on the means of judging the sustainability of employment generation as per this performance and whether there was any monitoring mechanism for this. In this regard, the MoMSME replied as under:-

“After introduction of second financial assistance, in 2018-19, the status of applications received sanctioned by Bank and M.M. disbursed for 2<sup>nd</sup> financial assistance under PMEGP is given under:

**2<sup>nd</sup> LOAN FINANCIAL ASSISTANCE FOR THE YEARS FROM 2018-19 TO 2020-21**

Year	No. of applications received	No. of applications rejected	No. of applications forwarded to bank	Sanctioned by Bank	MM Claimed		MM Disbursement	
					Projects	MM (Rs. in lakhs)	Projects	MM (Rs. in lakhs)
2018-19	184	21	115	39	25	220.70	22	204.45
2019-20	471	20	384	197	155	1047.97	139	975.95
2020-21 (as on 03.09.2020)	231	4	193	47	71	515.82	57	474.32
<b>Total</b>	<b>886</b>	<b>45</b>	<b>692</b>	<b>283</b>	<b>251</b>	<b>1784.49</b>	<b>218</b>	<b>1654.72</b>

The table shown above indicates that there has been a continuous increase in the number of applications for second assistance. Efforts are being taken to create more awareness on 2<sup>nd</sup> financial assistance with the help of financing banks to popularize the scheme among the PMEGP beneficiaries and other stakeholders.

During the FY 2019-20, the process has also been simplified in respect of 2nd loan. Now in place of the submission of ITR for the last three years, only last one year ITR will be necessary. REGP units may also be considered for availing the facility of 2nd loan besides PMEGP/ Mudra units.

It is expected that due to the above reasons, performance in respect of 2<sup>nd</sup> loan will improve further.”

## **XI. Consultative Committee on PMEGP**

54. The MoMSME in their Background Note on the issue of Monitoring and Review of the programme, has provided for multi-level monitoring of the programme at (i) State (headed by Principal Secretary (Industry) & Commissioners) (ii) Ministry (chaired by Hon. Minister/ Secretary, MoMSME) (iii) National (headed by Chairman, KVIC) (iv) Zonal (headed by CEO, KVIC) and (v) District Level Advisory Committee (under the chairmanship of Hon'ble Member of Parliament, Lok Sabha).

55. The MoMSME on being asked whether district level monitoring committee holds meeting in any district and if so, the details of the meetings taken by the Committee and their outcome and whether the Ministry is keeping track of such meetings, replied as under:-

“Ministry of MSME had constituted a District Level Advisory Committee under the chairpersonship of the Hon'ble Member of Parliament of Lok Sabha (LS) for each district for proper monitoring of Prime Minister's Employment Generation Programme (PMEGP) which is a credit-linked subsidy programme aimed at generating self-employment opportunities through establishment of micro-enterprises in the non-farm sector by helping traditional artisans and unemployed rural/urban youth.

In June, 2015, Ministry had addressed a letter to all the Hon'ble Members of the Parliament (Lok Sabha/Rajya Sabha) apprising them about the existing District Level Advisory Committee and its role in implementation of PMEGP. They were also requested to convene the meeting of the Advisory Committee under their chairpersonship in consultation with the District Collectors/DMs. However very few such meetings have actually taken place.

Here it may also be added that, Ministry of Rural Development in 2016-17 constituted the District Development Coordination and Monitoring Committee (DISHA) and launched DISHA Dashboard, which is a data intelligence platform providing requisite information to the elected representatives to track the performance of all the major flagship schemes of the different central ministries in their respective districts and constituencies. Data pertaining to 42 major Schemes of the Government, including PMEGP, is available on DISHA dashboard. PMEGP Scheme is also considered during discussions by the DISHA Committee. \*\*\*\*

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## **XII. Challenges and New initiatives – Doing away with DLFTC, Score Card, Online Entrepreneurship Development Programme (EDP) training, Champions Portal**

56. As per the Background Note, MoMSME stated that the Scheme was evaluated by MDI, Gurgram during 2017-18, Major observations of the evaluation study are:-

- (i) Scheme has been able to provide Sustainable Employment opportunities for 4 - 5 lakh persons during each financial years.
- (ii) Average Employment Per Project is 7.62 persons.
- (ii) Average Cost of Generating Unit Employment is Rs. 96,209.

57. The MoMSME in the Power Point Presentation made before the Committee has given the following data relating to PMEGP:-

**YEAR-WISE PERFORMANCE: 5 YEARS**

Year	MM utilized Rs. in crores	Number of Units				Estimated employment generated
		Rural	Urban	% units in Rural area	Total	
2015-16	1,020.06	35,658	8,682	76	44,340	3,23,362
2016-17	1,280.93	42,834	10,078	81	52,912	4,07,840
2017-18	1,312.40	39,543	8,759	82	48,398	3,87,184
2018-19	2,070.00	60,323	13,104	82	73,427	5,87,416
2019 -20	1950.82	53,903	12,750	81	66,653	5,33,224
2020-21 (Till 5 <sup>th</sup> Aug'20)	301.07	7,547	1,544	76	9,901	79,208

58. The MoMSME in their Background Note submitted the following information on recent development/ modifications:-

“(i) The analysis of the Scheme data brought out that one of the major reason for delay in approval of PMEGP applications was the time taken (more than 6 months) by District Level Task Force Committee (DLTFC) in forwarding the applications to the banks. Based on further consultations and feed backs, the Scheme process has now been simplified by discontinuing the role of DLTFC for recommendation of proposal/ applications to financing banks. The role of DLTFC is now modified to monitor the performance of PMEGP Scheme on quarterly basis in their respective districts. Now as per the revised model:

(a) State/district level implementing agencies viz. KVIC, KVIB and DICs will receive and scrutinize the applications based on Score Card model and forward it directly to the Banks for taking credit decisions.

(b) This has reduced the delays in processing of proposals - more than 80,000 proposals have been forwarded to Banks between April to July 2020 compared to about 50,000 applications between April to June 2019.

(ii) The successful applicants have to compulsorily undergo Entrepreneurship Programme (EDP) before the release of the 1st instalment of loan by the financing bank. To expedite the availability of EDP training to all successful applicants, online EDP module has been developed and introduced in October 2019. Till July, 2020, about 19,000 beneficiaries have taken online EDP.

(iii) Geo-tagging of PMEGP units has been planned to identify and monitor the units.

(iv) In a meeting taken by Hon’ble Finance Minister and Hon’ble Minister of MSME with CMDs of all major Banks, in February 2020, to sort out various issues to take forward the scheme, it was directed that banks should quickly release loans in cases which are approved and should take early decision on pending applications. Banks were also asked to devise a mechanism to automatically transfer such applications which are outside their service jurisdiction to appropriate branch to avoid rejection on such grounds.

(v) Champions.gov.in, a single interactive platform cum control room, has been launched by Ministry to receive online grievances and suggestions and provide prompt redressal at the field level.

(vi) Banks are regularly being requested, by the Ministry of MSME to expedite credit decisions and also charge uniform interest rates, at the lowest possible rate, for loans to beneficiaries.”

59. On being asked, “Have the Banks given any relaxation to the PMEGP beneficiaries in repayment of loan as businesses are severely hampered in the present situation and whether any relaxations have also been given to the beneficiaries whose loans have been approved during the current quarter”, the MoMSME replied as under:-

“ In context of the COVID-19 pandemic, Reserve Bank of India (RBI) vide its ‘COVID 19-Regulatory Package’, dated 27.3.2020 and 23.5.2020, for loans/facilities outstanding as on March 1, 2020, has permitted lending institutions (a) a moratorium for six months until 31st August, 2020 accompanied by an asset classification standstill during this period, (b) recalculation of the ‘drawing power’ of working capital facilities without an asset classification downgrade and (c) conversion of the accumulated interest for the deferment period up to 31 August 2020, into a funded interest term loan. These relaxations apply to all loans, including loans under PMEGP.

Beneficiaries of PMEGP are also covered under the fully guaranteed collateral free Emergency Credit Line Guarantee Scheme (ECLGS) which allow borrowers to avail up to 20% of their outstanding loans on 29.2.2020 as additional working capital term loans.

RBI vide its circular dated 1.1.2019, permitted one-time restructuring of existing loans to MSMEs classified as ‘standard’ without asset classification downgrade subject to certain conditions. On 11.2.2020, RBI extended the scheme till 31.12.2020 for entities that were in default but ‘standard’ as on 1.1.2020. Further on 6.8.2020, RBI has extended the scheme till 31.3.2021 for entities that were in default but ‘standard’ as on 1.3.2020. This scheme is also available to eligible PMEGP borrowers.”

60. On being asked whether the Banks are charging the lowest possible rates on loans sanctioned under the PMEGP, the MoMSME replied as under:-

“RBI has deregulated the interest rates on advances sanctioned by Scheduled Commercial Banks subject to the regulatory instructions contained in Master Direction on Interest Rates on Advances dated March 3, 2016. As per data reported by RBI, for PSBs, the Weighted Average Lending Rate (WALR) of fresh rupee loans sanctioned in July 2020 is lower by 1.31% compared to the WALR of fresh rupee loans sanctioned in January 2019, indicating transmission of monetary policy. RBI advised banks to link all new floating rate loans to micro and small enterprises (MSEs) from October 1, 2019 to an external benchmark rate. Hence, interest rates on PMEGP loans are also now linked to an external benchmark lending rate. However, the spread over the external benchmark rate is to be decided by the banks as per their Board approved policy in line with extant regulatory guidelines and based upon their risk assessment.

Ministry has requested CMDs of all the major public sector Banks to charge uniform and lowest possible rate of interest. Ministry and KVIC are regularly reviewing the interest rates charged through the portal and during physical verification.”

61. On being asked about the views of the MSME/KVIC on the following suggestion of the Banks, the MoMSME replied as under:-

- **“Incentive/Subvention for timely repayment may be introduced.**  
 The subsidy of about 25% of the project cost is good incentive to setup micro units by the beneficiaries and timely repay the loan. Advanced Subsidy to the beneficiaries amounts to interest free loans. To encourage and incentive timely repayment, an option of 2<sup>nd</sup> round of loan (with reduced or no subsidy) has been introduced from 2018-19 for existing PMEGP/MUDRA units.
- **KVIC may consider setting up a call centre to help field functionaries with regard to PMEGP issues.**  
 KVIC help desks are also available at some State Offices, which provide assistance to the PMEGP aspirants to apply for the Scheme benefits. Help Desk/small call centre to assist prospective entrepreneurs is being considered for all Metro Cities and State Capitals.
- **KVIC may offer entrepreneurial advisory support.**  
 It is proposed to engage retired bank officials and other experts to provide hand holding/advisory support to PMEGP beneficiary.
- **The maximum loan amount under manufacturing sector may be increased to Rs 50 lakhs and that under Service sector to Rs 15-25 lakhs from the existing level of Rs. 25 lakhs and Rs. 10 lakhs respectively.**  
 Yes, it will helpful to beneficiaries to avail the loan facility. by enhancing the existing ceiling limit of Rs.25 lakh and Rs.10 lakh for micro enterprises under PMEGP to Rs.50 lakh and Rs.20 lakh for manufacturing and service/trading sector respectively, so that many new industries could be added under the ambit of PMEGP, thereby enhancing the scope of the Scheme. The viability of projects will also increase with the increase of investment limits.  
 M/s Deloitte India Pvt. Ltd. has undertaken 3rd party evaluation of the Scheme. Based on its recommendations, appropriate modifications in the Scheme will be made through EFC appraisal shortly.
- **The e-portal may be integrated with Credit Guarantee Fund Trust for Medium and Small Enterprises (CGTMSE).**  
 Proposal will be considered based on the recommendations of the evaluation study being conducted by M/s Deloitte India Pvt. Ltd.
- **Any individual not able to take benefit of the first dose of PMEGP scheme who may have started a new business on their own, may be considered as eligible for the second dose under PMEGP scheme if such an individual is interested in expansion of his business.**  
 It will be good to support such units as well. Appropriate decision will be taken through EFC for further modifications.



- **Regular and periodic training and some hand-holding of new entrepreneurs will help them understand the intricacies of market, accounting system, taxes etc. to ensure sustainability of the project.**  
Yes, it is proposed to provide periodic training and hand holding support to PMEGP beneficiaries through engaging retired bank officials in metro cities and other State Capital.
- **Sponsoring agencies of PMEGP may set up infrastructure/facilities where all the necessary permissions may be obtained under one umbrella for the entrepreneur. Alternately, industrial area/zone may be set up by the Government with the required set of infrastructure.**  
Yes, PMEGP units can be considered to be supported through Common facility centers, and also through plug and play models.
- **Units under agriculture allied activities may be brought under the scheme.**  
As per existing guidelines, under negative list any industry/business connected with cultivation of crops/plantation like Tea, Coffee, Rubber etc. sericulture (Cocoon rearing), Horticulture, Floriculture is not allowed. However, value addition under these activities is already allowed under PMEGP. Besides, Off Farm / Farm Linked activities in connection with sericulture, horticulture, floriculture etc. are also allowed. Further modifications will be considered based on the recommendations of the ongoing evaluation study of the Scheme.”

62. During the evidence on the subject, on being asked how KVIC, KVIB, and DIC are implementing the Scheme and propagating the Scheme amongst the potential entrepreneurs, the MoMSME submitted the following written information:-

“As per PMEGP Scheme guidelines, the scheme is implemented through KVIC, KVIB & DICs in rural areas at the State level. In the urban area, the scheme is implemented by State DICs only. Coir activity related projects are implemented by Coir Board. As per earlier scheme guidelines, the allocation of targets was 30% each for KVIC and KVIB and 40% for DICs out of the total State target. Later on agency-wise allocation was dispensed with and MM is being released to IAs on first come first serve basis. As per recent guidelines, selection of IA for rural area to be decided by beneficiary between KVIC and State KVIB and in urban area, beneficiary generally has to submit online application to DICs. Efforts are made by all IAs to scrutinize online applications and recommend the same to respective financing bank branches at the earliest. It is to inform that the DICs and State KVIBs are having district level offices in all States to propagate the scheme among the prospective entrepreneurs.

Based on the targets fixed by the government, the Implementing Agencies and KVIC HQ issue advertisement through various electronic and print media. The number of applications submitted by the prospective entrepreneurs during the last ten days is visible on the PMEGP-e-Portal

on daily basis, which help the IAs to follow up on the existing demand/applications on the e-portal.

There is need to expand the number of IAs. The Ministry and KVIC are working in this direction."

63. As per the Background Note submitted by MoMSME on the subject, it has been submitted that the Cabinet Committee on Economic Affairs (CCEA) in March, 2018 approved the continuation of the on-going Plan Scheme PMEGP, for three years from 2017-18 to 2019-20 with an outlay of Rs.5500.00 crores. During the three years, 188478 micro enterprises were set up, providing sustainable employment to estimated 15 lakh persons. Out of the total allocation, Rs. 5332 crore were disbursed toward subsidy and Rs. 128 crore were utilized towards backward and forward linkages, thereby, 99.46% of the allocated funds were fruitfully utilized during the three FYs. Department of Expenditure has approved further continuation of the scheme during 2020-21 with budget allocation of Rs.2500 crore (Rs.2389.49 for MM and Rs.110.51 for BFL).

The margin money funds allocation and utilization during the above said three years and current year 2020-21 is as under:

Year	Margin Money fund allocated (Rs. In Crore)	Margin Money fund disbursed (Rs. In Crore)	No of Micro-units assisted	Estimated employment generated
2017-18	1052.9	1312.4	48398	387182
2018-19	2068.8	2070	73427	587416
2019-20	2396.44	1950.82	66653	533224
2020-21* (till 04.08.2020)	2389.49	280.59	9121	72968

64. As per the PMEGP Guidelines on Negative List of Activities, the following list of activities will not be permitted under PMEGP for setting up of micro enterprises/ projects /units. a) Any industry/ business connected with Meat(slaughtered), i.e. processing, canning and/or serving items made of it as food, production/manufacturing or sale of intoxicant items like Beedi/Pan/ Cigar/Cigarette etc., any Hotel or Dhaba or sales outlet serving liquor, preparation/producing tobacco as raw materials, tapping of toddy for sale. Serving/selling non-vegetarian food at Hotels/Dhabas will be allowed. b) Any industry/business connected with cultivation of crops/plantation like Tea, Coffee, Rubber etc. sericulture (Cocoon rearing), Horticulture, Floriculture. Value addition under these will be allowed under PMEGP. Off Farm/Farm Linked activities in connection with sericulture, horticulture, floriculture etc will also be allowed. c) Any industry/business connected with Animal Husbandry like Pisciculture, Piggery, Poultry, etc d) Manufacturing of Polythene carry bags of less than 20 microns thickness and manufacture of carry bags or containers made of recycled

plastic for storing, carrying, dispensing or packaging of food stuff and any other item which causes environmental problems.

65. The MoMSME, on the issue of the steps being taken to share all the relevant information related to the scheme to the people, submitted as under:-

“PMEGP e-portal is an entrepreneur friendly and transparent portal containing entire information of the scheme, model project reports, FAQs, notifications, revisions in guidelines, etc.

KVIC in association with state implementing agencies organize awareness camps, workshops, Bankers Meetings and exhibitions at Zonal, state and district levels in order to propagate the PMEGP scheme for the development of micro industries.

For facilitating PMEGP beneficiaries, webinar through Samadhan agency is arranged every Sunday from 11.00 A.M. to 1.00 P.M. It is observed that on an average 12000 beneficiaries are participating and the same can be viewed on You Tube Channel.

Offices of NSIC, MSME-DIs and Tool Rooms spread across the countries are directed by the Ministry to provide all necessary information on Scheme besides providing necessary handholding and monitoring support.”

66. The representatives of MoMSME, during the oral evidence on the issue of real problems faced by the applicants submitted that earlier they did not have any grievance redressal mechanism, which was a major issue. Working on this, they made a Portal (Champions) launched by Hon’ble Prime Minister on 1<sup>st</sup> June, 2020. They have established a physical Control Room in Delhi and 66 other places based on Hub-and-Spoke Model. The Secretary, MOMSME actively interact with the people *via* video conferencing facility of the Control Room and get to know the problems being faced by the applicants/beneficiaries.

67. The Public Accounts Committee, on the basis of in depth examination of written and oral submissions made by the MoMSME/ KVIC and DFS and having covered the period since its inception till as recently as possible, have made their recommendations that form Part-II of the Report.

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**PART II**  
**OBSERVATIONS AND RECOMMENDATIONS**

**INTRODUCTION**

Prime Minister's Employment Generation Programme (PMEGP), a credit-linked subsidy programme, was launched in August 2008, by the Ministry of Micro, Small and Medium Enterprises (MoMSME) (Ministry), with the objective to provide continuous and sustainable employment to traditional artisans and unemployed youth in rural as well as urban areas. PMEGP, formed after merging Prime Minister Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP), is administered by the MoMSME with Khadi and Village Industries Commission (KVIC) as the 'National Nodal Agency' which routes funds to other Implementing Agencies (IAs) viz., Khadi and Village Industries Board (KVIB) and District Industries Centres (DIC).

As PMEGP is a bank appraised and financed programme, the Public Sector Banks under the Ministry of Finance, Department of Financial Services (DFS) have a major role in its implementation. The C&AG undertook the audit of the Programme covering the period from inception of the Programme i.e., from August 2008 to March, 2016 and found that the success of PMEGP was hampered by various structural gaps in the implementation of the Programme; funds released for implementation of the scheme remained idle with several agencies; monitoring and control of the programme activities was poor; there were backlogs in physical verification and even where physical verifications were done, the results were not followed up. The Committee's examination of the subject and their observations/recommendations on the issues relating to the MoMSME, the Khadi and Village Industries Commission (KVIC) and the DFS as brought out in the Audit Report are detailed in the succeeding paragraphs.

**1. Introduction of single Nodal Bank**

The Committee observe that funds were transferred under the PMEGP from the Ministry to KVIC-HQ, by KVIC-HQ to Field Offices and from Field Offices to Nodal Banks, although there was no corresponding demand or immediate scope for utilization thereby, resulting in idling of funds in savings bank accounts. For addressing the issue, as per the reply of the Ministry, a single Nodal Bank system has been introduced, closing 1100 Nodal Bank accounts spreading across all districts/States. According to the Ministry, the new arrangement of disbursement of margin money to all the financing banks across the country is working effectively as the single Nodal Bank generally disburses the validated margin money claim to the financing banks within 24 hours, thereby reducing the period of parking of funds and facilitating better monitoring. The Committee note that the Corporation Bank was appointed as the Nodal Bank for four years since July 2016 and the Indian Bank started functioning as the Nodal Bank from July 2020. The Committee note that a total amount of Rs 6313 crore was released to Corporation bank from July 2016 to June 2020 and an amount of Rs 6321 crore had been disbursed by the Bank. The Committee are surprised to note that the Corporation Bank had released money in excess of what was given. The Committee in this regard also hope that the KVIC had put adequate checks in place to ensure that the Nodal bank did not release the MM prior to the validation of the respective claims by the KVIC. Further, The Committee note that the Indian Bank received Margin Money of Rs 5808 cr from July 2020 till 26.11.2020 out of which it disbursed Rs 5654 cr to the financing branches thereby indicating short disbursement of Rs 154 crore. The Committee note from the reply of the DFS that there could be a time lag between receipt of the margin money from the KVIC and the confirmation from the KVIC for release of the money to the beneficiaries on receipt of proper demand from the respective banks, leading to a balance outstanding in the nodal bank's account. The Committee, while noting that the KVIC is required to validate claims and upload the information on the nodal bank's portal within three working days, desire that the KVIC follow the prescribed time frame to ensure that money is not kept outstanding in the nodal bank's account for a long period. The Committee also note from

the submission made by the DFS that out of the Rs 154 cr as stated above disbursement of Rs 23 crore is moving slowly due to merger of banks and difficulty in tracing the ultimate credit details of the beneficiaries. The Committee impress upon the KVIC to urgently look into the issue and take necessary action to ensure that TDRs in the name of the beneficiaries are created immediately to sustain their interest in running the business for at least three years.

**2. Utilisation of Rural Employment Generation Programme (REGP) Funds:**

The Committee note that REGP scheme was closed on 31<sup>st</sup> March, 2008 and an amount of Rs 36.82 crore was released to KVIC by the Ministry during the year 2011-12 for clearing the old REGP margin money claims. However, as per Audit, from the amount, Rs 12.87 crore remained unutilized for over four years. The Committee note from the reply of the Ministry that an amount of Rs 30.36 crore was released by KVIC HQ to 26 Field Office for settling the old claims of which various KVIC State offices had utilized Rs 24.29 crore and refunded Rs 6.07 crore to KVIC HQ. The Committee observe that the Ministry has requested KVIC to refund the entire unspent amount of Rs 12.53 crore as it will now be releasing funds required by the KVIC to settle the claims on case to case basis. The Committee, while noting that it has been more than 12 years since the REGP scheme was closed, express disappointment at the lackadaisical approach of the Ministry for having kept an amount of Rs 12.53 crore idle for more than a decade now. The Committee are of the view that the Ministry/ KVIC need to take urgent steps to expedite/ settle the pending court cases and wind-up the claim settlement process at the earliest and apprise the Committee thereof.

**3. Charging of Interest on entire project loan and Charging of excess Margin Money (MM):**

The Committee note that Banks had charged interest on the entire loan amount including the Margin Money thereby placing additional burden on the beneficiary and changing the nature of the subsidy to that of a loan.

The Committee further note from the reply of the Ministry on the Audit observation that since the Margin Money was parked with the Nodal Bank, the financing Bank, had in certain cases, charged interest on the MM but after the receipt of the same from the Nodal Bank the entry was reversed from the back date itself to pass the benefit on to the beneficiaries. The Committee observe that while in most cases pointed out by the Audit, the amount has been refunded to the KVIC, 5 cases pertaining to Dena Bank and 4 cases under the Oriental Bank of Commerce have still not been settled. The Committee desire that these cases may be followed up by the Ministry/ DFS and urgent action taken to get the entries reversed. The Committee further note that from the reply of the Ministry that the current online system has checks to prevent such violations, as the system captures amount of loan sanctioned and admissible subsidy. However, the DFS has expressed its apprehension on the same by submitting that the on-line portal developed by the KVIC does not have the facility to detect such violations. The Committee desire that the KVIC, in coordination with the DFS/ Banks, develop a robust mechanism to ensure that such instances of charging excess interest do not recur. The Committee further express the need for developing and making available an interest calculator on the PMEGP portal, so that the beneficiaries themselves are able to calculate their interest liability.

#### 4. Physical Verification (PV) of the projects:

The Committee note that Physical Verification (PV) of units financed under PMEGP becomes due before completion of three years and KVIC has to get the PV of projects conducted through outsourced agencies. However, Audit observed that there was a huge backlog in conducting PV that was attributed to factors such as, disturbed area, change of agency and poor response to tendering at field office levels. The Committee note from the reply of the Ministry that Physical Verification of 2,95,877 (more than 92%) units against the total of 3,20,828 units set up from 2008-09 to 2014-15 has been completed through outsourced third party agencies. For the year 2015-16, of the total 44,340 units, physical verification of 19,680

units from 22 states has been completed. Further, for the year 2016-17, Physical verification of 11,807 units from 7 States has been completed. The Committee are dismayed to note that the Ministry was not able to get all the units established upto 2013-14, physically verified by June 2018, as committed by it during the sitting of the PAC held in December, 2017. The Committee further note from the reply of the Ministry that as per physical verification report submitted by the outsourced agencies, it is observed that on an average about 80% of PMEGP units were found working and rest were either closed or not found existing at the registered location. The Committee are of the view that the long term sustainability of the projects promoted under the PMEGP can only be gauged by carrying out the physical verification timely. Audit also found that there was no mechanism in place for ensuring and tracking recovery against call back of MM. The Committee, while expressing disappointment at the lackadaisical approach of the Ministry / KVIC, as they allowed huge backlogs in conducting the Physical Verification of the units, opine that timely exercise would have helped the Ministry/ KVIC in better management of MM funds and also in analyzing the reasons for such a high proportion of non-functional units for taking appropriate corrective action. The Committee also desire to be apprised of the mechanism put in place for ensuring and tracking recovery of Margin Money disbursed in cases where the units were found non-functional, the details of amount so recovered and amount of Margin Money disbursed and not yet recovered. The Committee further note that the Margin Money is deposited in the TDR account in the name of the beneficiary where it is kept for 3 years and after the completion of PV, the same is released to the beneficiary's account. The Committee, therefore, opine that in no circumstance should the PV be delayed as it has a direct relation with the actual release of the MM to the beneficiary's loan account. The Committee recommend that all the PV that are due may be completed at the earliest and in a time bound manner and action be taken against those responsible for conducting the PVs in case of any delays. The Committee also desire to be apprised of the manner in which Banks have treated the loan accounts of the beneficiaries who have repaid their loan



within stipulated time but due to delay in Physical Verification, their Margin Money could not be released. The Committee note that to streamline the complete process of physical verification, the activity is being centralized under the Directorate of PMEGP and the KVIC Headquarter will be engaging agencies, on a long term basis, at the national level for all States/UTs. Further, Geo-tagging of PMEGP Units to identify and monitor the units is also being undertaken. The Committee while acknowledging the steps taken by the Ministry to streamline the process, feel that to regularly verify the financial soundness of an enterprise, the KVIC may tie up with the Banks for getting access to the reports of their periodic visits on the physical and financial status of the PMEGP projects with reference to the credit given by the Banks to have an idea of the sustainability of the project promoted under the Scheme. The Committee further opine that in order to ensure sustainability of the projects promoted under the PMEGP in the long run, their performance may be monitored even beyond the stipulated period of three years. This can help the distressed units in getting timely handholding and improving their performance and the Ministry in keeping track of the units; assessing the impact of the Scheme; and making further improvements to the Scheme to enable expansion of the well performing units.

**5. Slow pace of loan sanction and Banks discretion for sanctioning of loan and interest**

The Committee note the slow pace of bank sanctions under PMEGP. In this regard, they further observe that the Bank sanctions are slower during the first two quarters of the Financial Year thereby resulting in crowding of sanctions during last quarter and leading to poor quality projects being sanctioned and consequential increase in the number of NPAs. The Committee note that despite RBI's instructions in this regard that specifies that the Banks have to sanction or reject the loan applications in MSME sector within 30 days of receipt of application, the process of sanctioning of loans has taken up to 3-4 months in some cases. The DFS, in its reply, have stated that sanction of loans may sometimes

take longer than 30 days depending upon the specific requirement and circumstances of each case. However, since reduction in the Turn Around Time (TAT) has been made a parameter for assessing banks' performance on the EASE index and with processing and sanctioning of loans being increasingly digitized in each bank, TAT has been systematically improving and pendency of applications is reducing. Further, implementation of a score card approach for objective assessment of the applications, as advised by KVIC to Implementing Agencies *vide* its circular dated 29.7.2020, should also lead to future improvement in TAT. The DFS in its reply has also submitted that Banks have been sensitising branches on regular basis to canvass and process the business proposals regularly, setting up of dedicated centralised credit processing centres, close coordination with implementing agencies etc.. The Committee while acknowledging the steps taken by the DFS to reduce pendency desire that the Banks monitor the performance of their Branches frequently, particularly, in the present times, as the assistance given under PMEGP can prove to be of major help in reviving/ sustaining the MSE sector. The Committee also desire the KVIC/MoMSME to regularly follow up the status of applications that are pending for more than 30 days and to put up a list of their Nodal Officers on the KVIC's e-portal along with a list of Nodal Officers from Banks, for providing necessary support and handholding to the applicant.

**6. Charging of lowest possible rates of interest for loans under PMEGP**

The Committee note that the Banks have now been mandated to link all new floating rate loans to MSEs to an external benchmark rate and accordingly PMEGP loans are also now linked to an external benchmark lending rate. The Committee, however, note that the spread over the external benchmark rate is to be still decided by the banks as per Board approved policy in line with extant regulatory guidelines and based upon their risk assessment. The Committee while observing that the intent of RBI for taking this step was to ensure that the borrowers are invariably given the benefit of the rate cuts, urge the DFS/ Banks to charge uniform and

lowest possible rates of interest as it will go a long way in helping the units in the MSME sector in the present times and thereby in the long run.

#### 7. Collateral security

The Committee note that the Banks are mandated to not to ask for collateral security for loans upto ₹10 lakh vide RBI Circular No. RPCD.SME&NFS.BC.No. 79/06.02.31/2009-10 dated May 6, 2010. However, the Banks have been asking for collateral security for sanctioning of loans upto Rs.10 lakhs. The Committee note from the reply of DFS that compliance to the RBI guidelines is ensured through periodic inspections by RBI and by Banks through random checking by internal auditor of the Branches and sensitisation of field level offices on a regular basis. In addition to the above, the said instructions of RBI are regularly reiterated in review meetings and video conferences that DFS periodically holds with Banks, and also in State Level Bankers' Committee (SLBC) meetings which include a DFS nominee. The Committee, while noting that the beneficiaries can submit their grievances on PMEGP e-portal relating to banks seeking collateral security for loans upto ₹10 lakh in MSE sector, express the view that since this is in clear violation of RBI guidelines the DFS must take action against the Banks who do not adhere to the guidelines. The Committee also desire that such cases may invariably be referred to the RBI/ CGTMSE Board (Credit Guarantee Fund Trust for Micro and Small Enterprises Board) for ensuring corrective action and non-repetition of such instances.

#### 8. Non-Performing Assets (NPAs)

The Committee note that from FY 2015-16 till FY 2019-20 (third quarter), Public Sector Banks (PSBs) have sanctioned an amount of Rs 10,169.27 crore under PMEGP while during this period, a total of Rs 1537.53 crore had been classified as NPAs which increased to Rs 1996 crore (Gross NPAs) as on 30 June, 2020. As per the DFS, some of the common reasons for high NPAs in different States, as identified by Banks , *inter-alia* include business failure due to lack of Forward and Backward Linkages (BFL),

competition amongst entrepreneurs, need for skill up-gradation, and extraneous factors like floods, etc. The Committee desire that the major reasons identified by the banks, particularly lack of skill upgradation and lack of backward and forward linkages may be looked into by the MSME and appropriate steps initiated at the earliest to minimize the NPAs. The Committee, while noting that the District Level Task Force Committee (DLTFC) has been done away with and KVIC and other IAs are now recommending the applications, are of the view that the applications under PMEGP should be approved by the KVIC only, after proper evaluation of the proposed project and the crowding of the applications in the last quarter may not be allowed in any case to avoid sub standard projects getting the go-ahead. Further, the Committee, while noting that in violation of the PMEGP guidelines, some Banks were, till 2014-15, adjusting the MM in NPAs, would like to be apprised of the details of bank wise margin money adjustment in NPAs and the action taken by the Ministry to recover the same.

#### **9. Second dose of financial assistance**

The Committee note that the Government, while approving continuation of PMEGP beyond 12<sup>th</sup> Five Year Plan(2012-17), provided for sanctioning of a second loan with subsidy for upgrading the existing units, which are performing well in terms of turnover, profit making and loan repayment. The Committee note that the response for the second dose has not been encouraging as only 22 beneficiaries availed second loan in 2018-19 while 139 beneficiaries availed the same in 2019-20. The Committee note from the reply of the Ministry that lack of awareness, considerable time lag for being eligible for second loan as the first loan has to be paid-up fully and the lower subsidy on the second loan are the possible reasons for low availment of the second loan. The Committee, while opining that the successful enterprises would most certainly want to expand their businesses, desire that the Ministry examine the issues urgently and revise the guidelines suitably within a fixed time-frame to increase the off take of the second loan. The Committee further opine that the subsidy for

upgradation may also be allowed to the units who did not avail the benefit under the PMEGP while setting up their business. The Committee also desire that the physical verification of the enterprises whose loans have been repaid within the stipulated period may be done on priority to facilitate them in applying for the second loan.

#### **10. Consultative Committee on PMEGP**

The Committee note that multilevel Monitoring and Review of the Programme has been provided for at different levels viz. (i) State level (headed by Principal Secretary (Industry) & Commissioners) (ii) Ministry level (chaired by Hon. Minister/ Secretary, MoMSME) (iii) National level (headed by Chairman, KVIC) (iv) Zonal level (headed by CEO, KVIC) and (v) District Level Advisory Committee (under the chairmanship of Hon'ble Member of Parliament, Lok Sabha). In this regard the Committee note that the MoMSME, in June, 2015, had written to all the Members of Parliament apprising them about the existing District Level Advisory Committee and its role in implementation of PMEGP and also requested to convene the meeting of the Advisory Committee under their Chairpersonship, in consultation with the District Collectors/DMs. However, very few such meetings have actually taken place. The Committee are of the view since the aforesaid letter was issued in 2015, i.e., during the term of last Lok Sabha, the MoMSME should apprise the Members of the 17<sup>th</sup> Lok Sabha about the provision for an Advisory Committee, its powers and its mandate and emphasise on time-to-time meetings of the same to assess the progress made under PMEGP. The Committee are also of the opinion that to have focused monitoring and evaluation of the flagship Programme, the MoMSME should play a proactive role in the working of the District Level Advisory Committee so that the performance of PMEGP is reviewed effectively at the ground level.

#### **11. Challenges and New initiatives – Doing away with DLFTC, Score Card, Online EDP training, Champions Portal**

The Committee note that as per the Evaluation Study Report conducted by Management Development Institute (MDI), Gurgaon, PMEGP has been able to provide sustainable employment opportunities for 4-5 lakh persons during each of the preceding financial years; average employment per project is 7.62 persons; and average cost of Generating Unit Employment is ₹96,209/-. Further, as per the data for last five years, the number of units set-up has increased from 44,340 in 2015-16 to 66,653 in 2019-20 and the estimated employment generated has also increased from 3,23,362 in 2015-16 to 5,33,224. The Committee note that over the period of time, learning from the experience and factors responsible for causing delay in approval of PMEGP applications, the MoMSME introduced major changes viz. discontinuing the role of DLFTC for recommendation of proposal/applications to financing banks and simultaneous introduction of Score Card model for application processing; introduction of online EDP module from October, 2019; Geo-tagging of PMEGP Units to identify and monitor the Units; and launching of grievance redressal platform - Champions Portal. The Committee further note that PMEGP beneficiaries are covered under the fully guaranteed collateral free Emergency Credit Line Guarantee Scheme (ECLGS) which allow borrowers to avail up to 20% of their outstanding loans (on 29.2.2020) as additional working capital term loans. Banks have been directed to expedite credit decisions and charge uniform interest rates, at lowest possible rate, on the loans to beneficiaries and reviewing the same through the portal and during Physical Verification. The Committee, while acknowledging the various steps taken by the Ministry to streamline faster processing of PMEGP loan applications, are of the opinion that the same may be given wide publicity in print, electronic media and social media so as to reach the last mile person. The Committee also feel that the Government's Programmes/Schemes/Initiatives introduced for welfare of common people should reach them in simple and effective manner and desire that regular upgradation programmes, dissemination of information about the new regulations, new laws, new technology etc should be done regularly, the success stories may be aired or shown etc. and the awareness campaigns/ forms /EDP programmes/

should be made available in regional languages to maximize their reach. The Committee further desire that to improve the performance of the PMEGP incentive/subvention to beneficiaries for timely repayment of loans may be provided; the process of setting-up of the Help Desk/small Call Centre to assist potential entrepreneurs in all Metro Cities and State Capitals coupled with camps in the remote areas may be expedited; entrepreneurial advisory support by engaging experts to provide hand holding/advisory support to PMEGP beneficiaries may be provided and management trainees may also be involved to spread awareness about the Scheme; increasing maximum loan amount may be considered; regular and periodic training, hand-holding of new entrepreneurs to help them understand the intricacies of market, accounting system, taxes etc. to ensure sustainability of the project may be given; industrial area/zone may be set up by the Government with the required set of infrastructure where all the necessary permissions may be obtained under one umbrella; opening of current accounts by the beneficiaries may be insisted upon for ascertaining the continued sustainability of the units; advertisements may be issued to inform about the Grievance Redressal Platform to the general public; time bound redressal of grievances may be done; provision for off-line training facility may be made for the beneficiaries residing in the remote, hilly and some rural areas that may have internet connectivity issues. The Committee are of the view that the Scheme may be continued for a longer period and the ambit of the Programme may be widened by re examining the items placed under the negative list to include the activities that can help in expanding employment opportunities

The Committee further note that M/s Deloitte India Pvt. Ltd. has undertaken Third Party Evaluation of the Scheme and appropriate modifications in the Scheme will be made through Expenditure Finance Committee (EFC) appraisal shortly, including integration of Credit Guarantee Fund Trust for Medium and Small Enterprises (CGTMSE) on PMEGP e-portal. The Committee desire to be apprised of the details of the appraisal made by the EFC and the action taken by the Ministry thereon.

NEW DELHI;  
10 March, 2021  
19 Phalgun, 1942 (Saka)

Adhir Ranjan Chowdhury  
Chairperson,  
Public Accounts Committee