

**GUIDELINES OF THE MARKET DEVELOPMENT ASSISTANCE (MDA) ON
PRODUCTION SCHEME TO BE IMPLEMENTED WITH EFFECT FROM
01.04.2010**

1 Background

1.1 Khadi is handspun and hand woven cloth made by around a million traditional rural artisans. Handspun and hand woven characteristic is the unique selling proposition of Khadi. Govt. of India has been providing sales promotional assistance, popularly known as rebate on the retail sale value of khadi in order to facilitate the product to compete with other textile products in the market.

1.2 The rebate scheme provides discount on khadi and polyvastra at retail point. It has two components viz. Normal and Special. Normal rebate is extended at a flat rate of 10% throughout the year on khadi items except reeled silk. Special rebate is extended at a rate of 10% on all khadi items for 108 days, coinciding with local festivals, in a year in addition to normal rebate.

1.3 The rebate scheme has been studied by several committees to assess its effectiveness in increasing sale of khadi. Based on the recommendations of these Committees, Govt. of India decided to introduce the scheme of Market Development Assistance on Production in place of rebate after experimenting with several pilot schemes. The scheme will become effective from 1st April 2010. The scheme will help Khadi sector to reorient their activities extending adequate emphasis towards increasing artisans' earnings as well as ensuring quality of khadi to customers.

1.4 Salient features of the MDA scheme:

1.4.1 The cost chart will continue only for the purpose of calculating value of production of raw khadi up to 'Wet Processing' stage to serve as the basis of calculating MDA thus, decontrolling and de-linking the sales price from the cost chart in the MDA scheme and offering scope to the institutions to add value to Khadi so that the products can be sold at market determined price. In short, the scheme offers scope for dynamic pricing for Khadi and Polyvastra products.

1.4.2 The scheme of MDA on Production aims at uniform distribution of sales throughout the year unlike the existing rebate scheme where most of the sale takes place during the special rebate season of 108 days.

1.4.3 A well-dispersed sale spread over the year would help Khadi Institutions to keep inventory levels down, thereby offering greater scope for mobilization of required working capital.

1.4.4 A fixed portion of MDA assistance will go directly to the artisans as special incentive/bonus and increase their earnings.

1.4.5 Institution-wise target for production under MDA scheme will be decided through a transparent system of State Level Budgeting exercise and sanctioned by Standing Finance Committee of KVIC.

1.4.6 MDA will be released on quarterly basis against claims to be submitted by the institutions.

1.4.7 MDA is being proposed only for the remaining two years (2010-11 and 2011-12) of the XI Five Year Plan, after which two systems of incentives, namely, Production Incentive to be worked out under the Khadi Reform and Development Programme (KRDP) and MDA would be integrated based upon the impact study of Production Incentive. MDA would not be biased towards high-value segment of the Khadi market and the Khadi institutions would have the flexibility to produce what the market wanted. An institution availing Production Incentive will not be eligible for MDA at the same time.

2 Definition of MDA

MDA on Production is an assistance proposed to be provided on cost of production of Khadi and Polyvastra achieved by the certified Khadi institutions. The Khadi institutions, having valid Khadi certificate and categorized as A+, A, B and C only are eligible to avail MDA from KVIC.

3 Rate of MDA

MDA shall be allowed @ 20% 'on cost of production' of Khadi (Cotton, Silk, Woollen) and Polyvastra to the extent of production target approved by the Standing Finance Committee (SFC) of KVIC for the year.

4 Definition of Production

4.1 The Khadi production activity is a composite activity of spinning, weaving and wet processing of khadi encompassing cost of raw material, hand spinning by registered spinners and weaving on handloom by registered weavers including spinners / reelers and weavers wages / conversion charges and provision for their social security measures, wet processing (bleaching, dyeing, finishing, printing) etc. **Conversion of Khadi cloth into ready to wear and ready to use items will not constitute cost of production.**

4.2 Cost of Production

The Cost of production in the context of Khadi and Polyvastra for the purpose of MDA includes the following:

$$\begin{aligned} & \text{Cost of raw material} \\ & + \\ & \text{Spinning/reeling and weaving charges including process wastage,} \\ & \quad \text{artisan incentive and Artisan Welfare Fund.} \\ & + \\ & \text{Wet processing viz. bleaching, dyeing, mercerizing, finishing and} \\ & \quad \text{Printing Charges, along with process waste} \\ & + \\ & \text{Permissible provisions such as trade expenses,} \\ & \quad \text{Bank interest , insurance * .} \\ & + \\ & \text{Allowable margin**} \\ & \text{(to meet establishment expenditure)} \end{aligned}$$

A comparison on the Component of Rebate and MDA is shown at Annexure- 'A'

Note:

- *The value addition charges for conversion of cloth into readymade, embroidery etc., shall not be included in the cost of production, as the market forces would determine prices of such value added products.*
- **Producing Institution** for the purpose of MDA will mean the institution engaged in the activity of production of Khadi.
- **Selling Institution** or sales outlets including departmentally run units of KVIC and KVIBs for the purpose of MDA will mean the institutions engaged in the activity of selling of Khadi purchased from producing institutions.
- **Composite Institutions** will mean the institutions engaged in the activity of producing and selling of Khadi.
- Composite institutions can also purchase Khadi from exclusive producing institutions and they can also sell Khadi to Selling institutions.
- *The formula for calculation of MDA based on production in the context of khadi will also be applicable for polyvastra.*

- *As regards the permissible provision, the existing guidelines of KVIC stipulates provision @ 3%, 4% and 1% **on the prime cost** for trade expenses, bank interest, insurance, respectively.
- ** The term allowable margin means the margin permitted by the Central Certification Committee of KVIC to meet the establishment expenditure. As per the existing guidelines, the establishment margin permitted for Cotton Khadi is 20% on the prime cost. The same for Muslin, Wool and Silk is 25%. For polyvastra the allowable margin is also 25% of the prime cost.
- The **prime cost** means the cost of raw material **plus** conversion charges upto grey cloth **plus** processing charges **but DOES NOT** include provision for trade expenses(3%), bank interest(4%), insurance(1%) and provision for establishment expenditure as given costing structure of KVIC.

5 Mechanism and purposes for utilization of MDA Grant

5.1 The MDA on production scheme offers flexibility to Khadi institutions to go for need based utilization of funds towards verifiable and tangible interventions and measures for improving the earning of artisans and also to improve the market for khadi and polyvastra. Accordingly, the proposed MDA @ 20% of the cost of production of Khadi and Polyvastra shall be apportioned among the artisans, khadi producing institution and selling institution as detailed below:

5.2 The total amount of MDA on production will be claimed by the producing institution from the KVIC and will be distributed amongst the stake holders viz spinners and weavers, producing institutions and selling institutions in the ratio 25%, 30% and 45% respectively.

5.3 25% of total MDA amount shall be passed on to the spinners and weavers in the form incentive or 'bonus' through their bank or post office accounts, in addition to their normal earnings as prescribed in the cost chart. Such additional wages out of MDA grant should not be included in the cost of Khadi.

5.4 *The above 25% of MDA amount cannot be used for extending assistance to the workers who are employees of the institutions and engaged to oversee the production activity and sales/marketing accounts etc.*

5.5 30% of total MDA amount will be utilized by Khadi producing institutions towards implements/training/capacity building.

5.6 The producing institution will transfer the 45% of total MDA amount, earmarked for selling institution as per the scheme, to the selling institution at the time of wholesale. **The transfer should be through invoice.** This MDA amount will be utilized by the selling institution on renovation / modification of sales outlets, training of salespersons, computerization, development of designs, publicity, discounts (if required). Khadi institutions selling khadi on wholesale will have to pass on the same (45% of total MDA) to purchasing institutions.

5.7 Production of Khadi and Polyvastra products for the purpose of Govt. supplies under Rate Contract (RC) of DGS & D to be made against the whole sale target approved by Standing Finance Committee of KVIC is not eligible fully for MDA , as these items are not sold through retail outlets. Hence, such items are not qualified for the MDA support earmarked for retail sales activity. Therefore, RC items will be eligible for 11% MDA instead of 20% as applicable in normal khadi.

5.8 Any amendment to this formula will have to be approved by the Ministry of MSME as and when required, on the basis of recommendations of KVIC after the actual performance is monitored and any anomaly observed in the scheme is removed.

6 Steps / Safeguards to enhanced wages of artisans

The following points will be adhered to in ensuring higher earnings of artisans:

- a) While obtaining undertaking for utilization of the funds for specific purposes clear indication will be made in the MDA claims format by the institution to the effect that the institution will take steps to enhance artisans' wages without compromising quality of cloth and designs.
- b) The institution will have to pay artisans at regular intervals, preferably fortnightly and no later than monthly, and through bank or post office account and maintain a record for verification of payments made to each artisan.
- c) The institution will remit money to the State Level Artisans Welfare Fund to the State Level Trusts and the receipt of remittance of fund should be attached with the claim format.
- d) The institutions have to cover all artisans within the ambit of Khadi Karigar Janashree Bima Yojana introduced by KVIC and such other welfare schemes to be introduced by KVIC with the approval of Ministry from time to time.

- e) **While submitting claims for quarterly release of MDA, the producing institution will also furnish a certificate to the effect that the MDA portion of spinners and weavers and selling institutions in the ratio 25% and 45% respectively, for the previous quarter, has been released to their satisfaction.** Any default in this regard will be taken into account by KVIC while releasing the payment of MDA for the next quarter.
- f) Compliance of all the above points will be ensured by KVIC while settling the MDA claim of each institution.
- g) KVIC will conduct random checks of at least 10% of the MDA claims which will include physical verification of all transactions with particular reference to the pass books, issued to artisans and other payments made to artisans and expenditure made on capacity building etc.

7 Periodicity of MDA claim

7.1 Producing institutions shall submit quarterly claim of MDA based on the actual production achieved during the preceding quarter of the financial year. The difference, if any, would be adjusted in the last quarter of the financial year on the basis of audited accounts by the Chartered Accountants. MDA shall be preferably reimbursed electronically by State/ Divisional office of KVIC on quarterly basis as detailed under:

Period of MDA claims (Quarters: I / II / III / IV)	Date by which MDA claim to be submitted by the Institution	Date by which MDA claim to be settled by SO / DO of KVIC
Quarter I	15 th July	15 th August
Quarter II	15 th October	15 th November
Quarter III	15 th January	15 th February
Quarter IV	15 th April	15 th May

7.2 The settlement of MDA claim by SO / DO of KVIC includes actual release of payment. **Efforts will be made to introduce the system of payments through ‘electronic transfer’ within 6 (six) months, wherever possible.**

7.3 The State / Divisional offices of KVIC will be responsible for ensuring the timely settlement of MDA claim and submit a quarterly report on 1st September, 1st December, 1st March and 1st June to Central Office, KVIC, Mumbai indicating the claims received, claims settled and the reasons for non-settlement of claims within the stipulated period during the previous quarter.

7.4 The funds will be released to KVIC on quarterly basis in the light of claim statement furnished by State/Divisional offices of KVIC. The fund for the first quarter of first year of implementation will be released in advance to KVIC in the month of July 2010 and thereafter, the funds will be released on quarterly basis on the basis of actual claims settled in previous quarter.

7.5 KVIC will furnish a quarterly report to the Ministry of MSME indicating the consolidated information on utilization and disbursement of MDA grant to the institutions for all offices under KVIC by 15th of the month following the prescribed dates for settlement of MDA claims for the quarter in question. The release of funds for MDA will be dependent on the receipt of the quarterly progress report from the KVIC.

7.6 Utilization of MDA grant will also be reviewed by the Ministry of MSME during review of plan fund utilization by KVIC. The MDA claims will also be open for 'internal audit' by the Chief Controller of Accounts (CCA) of the Ministry of MSME.

8. Closing Stock

8.1 The closing stock will be worked out as follows:

***Closing Stock = Opening Stocks + Production + Purchases (-)
Sales (Retail Sales + Whole Sales)***

8.2 The State/Divisional Directors will strictly follow the formula while recommending the targets for Production, Retail Sales and Whole Sales for the next year so as to avoid piling up of closing stocks during the previous year.

8.3 The institutions will furnish the closing stock position as on 31.03.2010 immediately after completion of the financial year, to the State/Divisional Director in the form of an Annual stock taking statement (center-wise) duly signed by the authorized stock taking persons of the institution with signatures of the authorized office bearers of the institutions.

8.4 The State/divisional Director shall ensure proper check / monitoring on this aspect through audit wing / khadi wing to conduct random test check while conducting the audit and technical monitoring inspection, respectively.

8.5 The closing stock position shall also be authenticated from the audited balance sheet duly certified by the Chartered Accountant.

8.6 The State/Divisional Directors will ensure that the institutions have submitted the Annual stock Statement in time to their respective offices and it will also be recorded in the record note Budget discussions.

8.7 On the basis of the formula prescribed by KVIC for the budget discussion for the year 2010-11, the closing stock position as on 31.03.2011 shall be reduced / controlled when compared to the closing stock position as on 31.03.2010. KVIC will devise an incentive/ disincentive plan to ensure control over the accumulation of closing stock position either in the form of reduction of targets for next year or withholding of certain percentage of MDA.

9. Period of utilization of MDA

Utilization of MDA for certain purposes such as modernization, renovation, research and development, etc., will take a period of more than one year. In such cases, the Khadi institutions will be allowed to spend MDA up to two years from the date of actual receipt with specific sanction from the State Level Budget Team (SLBT) of KVIC. In order to manage the MDA amount effectively, it will be mandatory on the part of the institutions to maintain a separate bank account which will be subject to verification by KVIC.

10. Documentation for MDA claims

MDA shall be disbursed to eligible institutions on their submission of detailed claims as per the prescribed format [{Annexure – I, II, III, IV & V}](#). The State / Divisional Directors of KVIC shall furnish the quarterly details of settlement of MDA claims to the Programme Directorate and Directorate of Accounts of KVIC within a period of one month after expiry of each quarter and a consolidated statement for the whole financial year by 30 April of the following year.

11. Furnishing of utilization certificate

11.1 The Khadi institutions availing MDA will be bound to furnish utilization certificate annually as rendered by registered Chartered Accountants (CA) clearly indicating registration number, address etc. of the CA. The format of utilization certificate, guidelines etc. will be circulated from time to time by KVIC. KVIC, in turn, will furnish the utilization certificate to the Government in Form 19A disclosing whether the specified, quantified and qualitative targets that should have been reached against the amount utilized were in fact reached and if not, the reasons there for.

11.2 CA while furnishing the utilization certificate of MDA, is expected to report on financial propriety, compliance to Rules, Regulations, guidelines, etc., issued by KVIC, financial sanctions, recommendation of State Level Budget Team of KVIC, etc., and to satisfy themselves as to existence of infrastructure – charkhas, looms, artisans, availability of raw material, appropriate application of utilization of MDA on areas agreed, etc., and only after being satisfied on these points, will authenticate the utilization certificates.

11.3 The CA concerned would issue the utilization certificate directly addressed to State / Divisional office of KVIC, so that the accountability and genuineness could be accounted.

12. Test Check / Test Audit and Monitoring of MDA on Production

12.1 KVIC shall conduct test audit / check of MDA claims through its Audit Teams, in respect of all the institutions availing MDA. The KVIC will reserve its right for such test audit / check and in case of any misutilization, it may order for complete audit of accounts of the Khadi Institution/Khadi & Village Industries Boards. The MDA claims will also be open for 'internal audit' by the Chief Controller of Accounts (CCA) of the Ministry of MSME.

12.2 As the funds for MDA would be extended from public funds, the Office of Comptroller and Auditor General of India will have the right of conducting audit / test check or otherwise as decided by that office.

13. State Government rebate / subsidy

13.1 The MDA is eligible uniformly to Khadi institutions both KVIC and State KVIBs affiliated institutions throughout the country. Similarly, the State Governments are also extending subsidies / rebate to the Khadi institutions located in the State concerned. As such, the State Government rebates is extended to all Khadi institutions, both KVIC and KVIB, in the State concerned on the actual retail sales. Similarly, if the State Government is interested to switch over to MDA on production subsidy, the production as defined for MDA by KVIC may be reckoned for the purpose of extending State Government subsidy.

13.2 In order to settle the State Government rebate / subsidy, the State Boards may satisfy themselves by obtaining a copy of utilization certificate of MDA from the State / Divisional Offices concerned as per the prevailing practice.

14. Dispute settlement in transfer of MDA

14.1 In case of non transfer or improper transfer of MDA by the producing institution to the other stake holders especially the selling institution, the stake holder should bring such transactions immediately (within one month of transaction) to the notice of State and Divisional Directors of KVIC who will direct the producing institutions to transfer the eligible portion of MDA forthwith. In case the khadi producing institution is not abiding by the directives of State/Divisional Director, he (State/Divisional Director) will deduct the amount from the claim of the Khadi producing institutions and remit to the stake holders including the selling institutions.

14.2 No penalty will be charged for first transaction and for subsequent transactions, the State / Divisional Director will arrange recovery of eligible MDA amount alongwith 5% interest calculated from the date of transaction and pay to artisans and weavers and the selling institution.

14.3 The Chief Executive Officer, KVIC shall be **the appellate authority for all disputes and all Khadi institutions will be bound by his decision.**

ANNEXURE – ‘A’

Comparison of the Components of Rebate and MDA

Components of MDA	Components of Rebate
<p align="center">Cost of raw material + Spinning/reeling and weaving charges including process wastage, artisan incentive and Artisan Welfare Fund etc. + Wet processing viz. bleaching, dyeing, mercerizing, finishing and Printing Charges etc. along with process waste + Permissible provisions such as trade expenses, Bank interest, insurance etc. on Prime Cost*. + Allowable margin on Prime Cost* (to meet establishment expenditure)</p>	<p align="center">Cost of raw material + Spinning/reeling and weaving charges including process wastage, artisan incentive and Artisan Welfare Fund etc. + Wet processing viz. bleaching, dyeing, mercerizing, finishing and Printing Charges etc. along with process waste + Permissible provisions such as trade expenses, Bank interest, insurance etc. on Prime Cost*. + Allowable margin on Prime Cost* (to meet establishment expenditure) + Value addition charges for conversion of cloth in to ready made including designing, embroidery etc.</p>

* **Prime Cost** = Cost of Raw Material + Conversion Charges up to Grey Cloth + Processing Charges