

Executive Summary

Why did we select this subject for Audit?

The role of new and renewable energy has been assuming increasing significance with the growing concern for India's energy security. India's substantial and sustained economic growth is placing enormous demand on its energy resources. The demand and supply imbalance in energy sources has been pervasive, requiring efforts by the Government of India (GOI) to augment energy supplies. The GOI has been taking initiatives to develop renewable energy programmes and schemes and deploy renewable energy systems for supplementing the energy requirements of the country.

The Planning Commission stated in the Twelfth Plan document that the annual average growth rate of the total energy requirement is expected to accelerate from 5.10 *per cent* per year in the Eleventh Plan to 5.70 *per cent* per year in the Twelfth Plan and the supply from renewables is expected to increase rapidly from 24,503 Megawatt (MW) by the end of the Eleventh Plan to 54,503 MW by the end of the Twelfth Plan, and underlined the need for investments in renewable energy. It is against this backdrop that Audit decided to review the functioning of Indian Renewable Energy Development Agency Limited (IREDA), given its unique status as the only Central Public Sector institution which provides institutional finance exclusively in the field of renewables and energy efficiency.

What were our audit objectives?

The performance audit was undertaken to assess whether:

- the Company was effective in discharging its role as a leading financial institution for Renewable Energy projects;
- an efficient mechanism existed for expeditious processing of loan requests;
- an effective mechanism existed for review and monitoring of projects with a view to recover its loans;
- projects sanctioned were commissioned/implemented on time; and
- subsidy released had resulted in achievement of the envisaged objectives of the GOI.

What did our performance audit reveal?

IREDA's share in the total commissioned capacity of Renewable Energy Sources of the country, which was 52.83 *per cent* at the beginning of the Tenth Five Year Plan (2002-07) period declined to 19.21 *per cent* at the end of the Tenth Five Year Plan and further to 7.66 *per cent* at the end of the Eleventh Five Year Plan. Thus, IREDA was not able to sustain its position as a leading financial institution in the renewable energy sector.

(Para 2.2.3)

IREDA prepared its Corporate Plan 2007-12 only after directions from the Task Force of Department of Public Enterprises (DPE) but did not submit it for approval of the Board of Directors (BOD). The BOD was, therefore, not aware of the status of implementation of various activities envisaged in the Corporate Plan. Steps proposed to be carried out in the short, medium and long-term were either not carried out or had only been partly implemented. There were critical matters either pending at the GOI level or on which IREDA was yet to take action. As such, the Corporate Plan did not serve its intended purpose as a long term planning tool.

(Para 2.4)

The targets fixed in the Memorandum of Understanding (MoU) did not have any correlation either with the targets indicated in the Corporate Plan or in the Outcome Budget of the Ministry of New and Renewable Energy (MNRE). Besides, MoU targets were understated as IREDA consistently exceeded even the 'excellent' targets.

(Para 2.6.3)

While the MoUs for the period 2005-06 to 2007-08 reflected targets of projects to be commissioned both in physical terms (MW) and in value terms, the MoUs for 2008-09, 2009-10 and 2010-11 reflected the targets only in value terms. The MoUs for 2011-12 and 2012-13 did not prescribe any such evaluation criteria. Besides, the MoUs did not depict sector-specific financing targets for IREDA.

(Para 2.7)

Out of 211 projects sanctioned during the period 2008-09 to 2012-13, 83 projects (39.34 *per cent*) were sanctioned after an average delay of 66 days, beyond the prescribed limit of 90 days. Besides, in two cases, the projects were registered after the loans were sanctioned/disbursed.

(Para 3.3.1)

Out of 457 loan applications received during 2008-09 to 2012-13, 298 applications (65.21 *per cent*) were dropped by IREDA at different stages *viz.* before registration, before sanction of loan and after sanction of loan. Thus, only 159 loan applications (34.79 *per cent*) were finally sanctioned.

(Para 3.4)

Out of the 42 cases selected by Audit, it was observed that in 17 cases (40 *per cent*) IREDA had deviated from the norm(s) prescribed in the financing guidelines for credit exposure limits, creation of mortgage, promoters' contribution, conduct of inspections, etc.

(Para 3.7)

The gross NPA to total loans in 2008-09 was 13.34 *per cent* and thereafter showed a decreasing trend and reduced to 3.86 *per cent* in 2012-13 except in the year 2011-12 in which it increased marginally to 5.46 *per cent*. However, the percentage of NPAs were much lower (ranging from 0.02 *per cent* to 1.04 *per cent* during the same period) in case of other power sector financing companies such as Rural Electrification Corporation Limited (REC) and Power Finance Corporation Limited (PFC).

(Para 4.2 and 4.3)

IREDA's One Time Settlement (OTS) policy was an ongoing scheme operating continuously without a fixed timeframe and therefore was likely to promote a culture of non-payment amongst its borrowers. Other power financing companies like REC and PFC did not have running OTS schemes.

(Para 4.9)

During 2008-09 to 2012-13, IREDA settled 29 cases under OTS, and recovered an amount of ₹ 208.85 crore against the outstanding dues of ₹ 446.70 crore. Thus, an amount of ₹ 237.85 crore (53.25 *per cent*) was sacrificed by IREDA on account of write off of principal and waiver of interest. Further, out of the 17 OTS cases selected by Audit for scrutiny, it was observed that in 14 cases, IREDA deviated from the OTS/Financing guidelines by allowing OTS to wilful defaulters, non-conducting of physical verification of projects, exceeding the prescribed limits while releasing disbursements, inadequate monitoring of financial condition of borrowers, etc.

(Para 4.9 and 4.10)

Out of 12 projects selected by Audit (from a total of 123 projects) wherein capital/interest subsidy received (₹ 18.10 crore) from MNRE was passed on (₹ 14.48 crore) by IREDA to the borrowers, in five cases, several irregularities were noticed in implementation of subsidy schemes *viz.* continued passing on of subsidy to borrowers who became ineligible, non-recovery of subsidy and absence of mechanisms to ensure continuity of the project.

(Para 5.4)

The Project Information and Documentation Monitoring System (PIDMOS) database lacked data integrity, reliability and completeness. Besides, there was no uniformity in the procedure for registering loan applications in PIDMOS as certain applications for additional loans were treated as a fresh loan.

(Para 6.2)

Several weaknesses were noticed in the operational controls of IREDA such as non-conduct of periodic inspections of project, non-appointment of nominee directors on the Board of Directors of the borrowers and non-framing of functional manuals for strengthening internal controls.

(Para 6.3)

What do we recommend?

1. The Board of Directors of IREDA may coordinate and monitor the execution of the Corporate Plan to improve the efficiency and effectiveness of IREDA's operations and to explore new business opportunities.
2. The targets fixed in the annual MoU signed with MNRE should be realistic and flow from the Corporate Plan and be reflected appropriately in the Outcome Budget of MNRE.
3. Quantifiable physical dimensions of the new and ongoing projects be reflected in the MoU.
4. The prescribed credit exposure limits should not be exceeded.
5. IREDA may ensure that while sanctioning loans, due diligence is conducted with adequate care. The Renewable Energy and Energy Efficiency Financing Guidelines may be followed in right earnest; deviations should be done only in exceptional cases with adequate justification.
6. Outstanding loans should be closely monitored in order to further reduce the level of Non-Performing Assets.
7. IREDA may develop a mechanism to monitor continuity of the projects for specified period after their commencement, to ensure electricity generation through RE projects in lieu of grant of subsidy. Further, subsidy should be recalled in all cases where projects do not run for the specified period as this dilutes the objective of the scheme.
8. Weaknesses in the internal control mechanism may be redressed.

The views of the Ministry (7 January 2015) on the recommendations made by Audit are given at **Annexure I**.