

Chapter - 2

Planning

2.1 Introduction

IREDA's mission is to be a pioneering and competitive institution for financing energy generation from renewable resources. Since a number of financial institutions and commercial banks are operating in area of financing renewables, it is imperative that IREDA effectively forms strategies and plans its actions to cope up with the challenges faced from the market.

2.2 IREDA's share in financing RE projects

One of IREDA's objectives is to maintain its position as a leading financial institution for renewables. Audit examined its position *vis-a-vis* the overall market for financing renewable energy and the findings are as under.

2.2.1 IREDA's Corporate Plan made a comparison of the overall investment in the RE sector in India during the period 2007-08 to 2010-11⁷ and actual disbursements by it, which was as under:

Table 2.1: Market share of IREDA in financing RE projects as per its Corporate Plan

₹ in crore

Particulars	2007-08	2008-09	2009-10	2010-11
Total investments by Financial Institutions	5934.16	6539.17	8520.07	11274.87
IREDA's annual disbursement	553.64	770.95	890.03	1224.17
IREDA's market share (percentage)	9.33	11.79	10.45	10.86

Source: IREDA's Corporate Plan and Annual Accounts

The above figures indicate that IREDA's market share during 2007-08 to 2010-11 was approximately 11 per cent.

⁷ as indicated in the Corporate Plan 2012-17.

2.2.2 Audit also analysed data on total investment in RE sector in India, obtained from the Report⁸ on Global Trends in Renewable Energy Investment 2014 and compared it with IREDA's disbursements during the period 2008-09 to 2012-13 which is shown in the following Table 2.2.

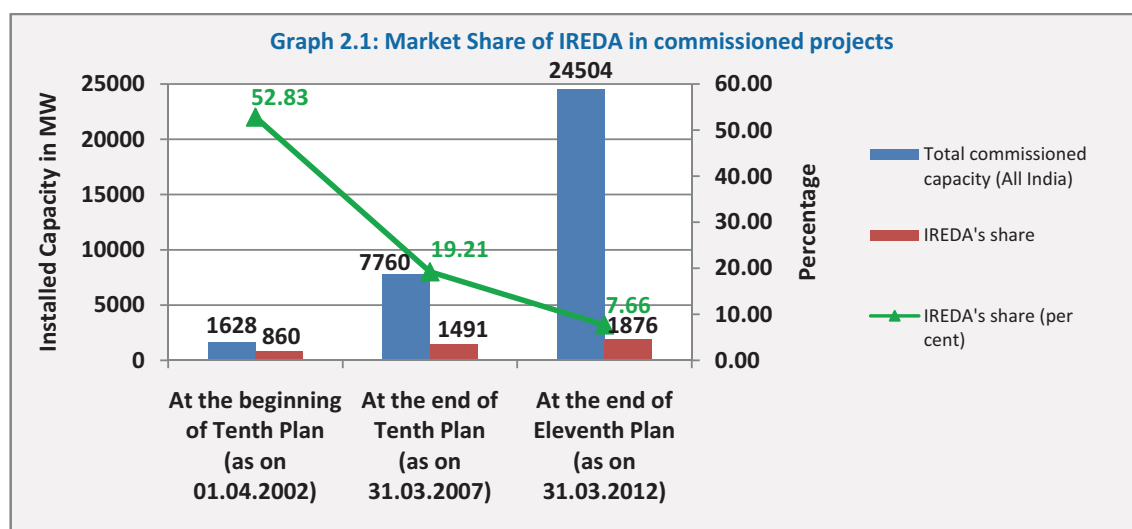
Table 2.2: Market share of IREDA in financing RE projects based on other report

	<i>₹ in crore</i>				
Investment in RE sector	2008-09	2009-10	2010-11	2011-12	2012-13
All India	21395	39263	56246	36835	33172
IREDA's Disbursement	771	890	1224	1855	2126
IREDA's share (percentage)	3.60	2.27	2.18	5.04	6.41

Source: Report on Global Trends in RE Investment 2014 and IREDA's Annual Report

IREDA's percentage of market share during 2008-09 to 2012-13 was in the range of 2.18 to 6.41 *per cent*. IREDA's market share in the financing of RE projects had not grown in comparison with the total investment by other financial institutions in the country during the period 2008-09 to 2010-11, although it accelerated after that as IREDA's disbursements increased while the total investment in the RE sector fell after 2010-11.

2.2.3 Audit also compared the position of commissioned RE projects with data from Central Electricity Authority and those from IREDA's Annual Reports. Share of IREDA's financed projects in the all-India commissioned capacity of renewable energy during the Tenth and Eleventh Plan period was as follows:



Source: Central Electricity Authority and IREDA's Annual Reports & Corporate Plan 2012-17

⁸ The report on Global Trends in Renewable Energy Investment by Frankfurt School-UNEP Collaborating Centre for Climate and Sustainable Energy.

The above indicates that IREDA's share in the total commissioned capacity which was 52.83 *per cent* at the beginning of the Tenth Plan period declined to 19.21 *per cent* at the end of the Tenth Plan and further to 7.66 *per cent* at the end of the Eleventh Plan.

Thus, IREDA was not able to sustain its position as a leading financial institution in the renewable energy sector.

The Management stated (April 2014) that inspite of stiff competition in the market, IREDA was able to maintain its market share ranging between 9 *per cent* to 11 *per cent*.

The Management reply is not correct as within the span of a decade, IREDA's position as a leading financial institution for renewable energy has declined from a dominant position with more than half of the total commissioned capacity to only 7.66 *per cent*. In 2012-13 it financed only 3.10 *per cent* (848 MW) of the total capacity commissioned (27542 MW). Hence, IREDA was getting further away from its mission to be a competitive institution for financing energy generation from renewable resources and its objective to maintain its position as a leading financial institution in renewables.

2.3 Planning

Businesses develop strategic plans with a short-term, medium-term and long-term perspective. Short-term plans usually involves processes that show results within a year or two, while medium-term plans aim at results that may take several years to achieve. Long term plans include the overall goals of IREDA to be achieved in the future. IREDA's Corporate Plans are prepared with long term perspective of five years or more while annual targets are framed in the Memorandum of Understanding (MoU) signed with MNRE.

2.4 Formulation and implementation of Corporate Plans

A Corporate plan defines the strategy to be adopted by a company to achieve its objectives and the corresponding action plans. It provides focus and direction to the company by setting out a roadmap. The Department of Public Enterprises (DPE) guidelines of 30 November 1994, envisaged that each Public Sector Enterprise should draw up a long term Corporate Plan with a time horizon of five years and a perspective of another 5-10 years.

1995-2007: Audit observed that IREDA formulated its first Corporate Plan in February 1998 covering the period from 1997-98 to 2001-02. The Corporate Plan for 2002-07 was however, not formulated.

2007-2012: In October 2005, IREDA appointed M/s CRISIL Limited (CRISIL) as consultant for developing a suitable strategy and action plan for IREDA. CRISIL submitted its report in

September 2006 outlining a plan to achieve suggested actions. The report of CRISIL was approved by the BOD in its 169th meeting held on 27 April 2007.

2012-2017: While finalising the MoU with IREDA for 2008-09, the Task Force of DPE stressed (January 2008) the need for having a comprehensive updated Corporate Plan from which concrete activities should be taken for implementation. IREDA accordingly prepared its Corporate Plan for 2007-12. IREDA engaged M/s PricewaterhouseCoopers Private Limited (PwC) for preparing the Corporate Plan for 2012-17. This Corporate Plan was put up to the BOD in its 220th meeting held on 11 May 2012 and the BOD noted the Plan.

In this connection Audit observed that:

- IREDA prepared the Corporate Plan 2007-12 after the Task Force stressed the need for this. The Plan was however not put up to the BOD on the grounds that- (a) it was no more a long term plan, since three out of the five years of the Plan were already over; and (b) the Corporate Plan was based on the report of CRISIL which had already been approved by the BOD in April 2007. Hence the BOD was not aware of the Corporate Plan as well as the status of implementation of various activities envisaged in the Corporate Plan 2007-12.
- The BOD did not monitor the progress of various activities envisaged under the Corporate Plan in order to satisfy themselves that planned activities were done and targets were achieved. Only individual items of work were put up in a piece-meal fashion to the BOD, such as the issue of broad-basing of equity or raising Initial Public Offering (IPO). As such, the BOD was unaware of the extent of execution of the Corporate Plan as a whole.
- Unlike the Corporate Plan 2007-12, the Plan for 2012-17 did not prescribe milestones for accomplishing specific tasks which would have enabled ensuring delivery of outputs within defined timelines.
- A number of actions/strategies envisaged in the short, medium and long-term under the Corporate Plan (2007-12) were either not carried out or had only been partly implemented. Out of 31 items of work envisaged for execution under four major areas of resource mobilisation, client retention/business development, organisation restructuring and image building, only 12 items⁹ of work were stated to have been implemented.
- Crucial issues in the Corporate Plan 2007-12 pertaining to resource mobilisation were undecided as these were reported to be pending at GOI level/other factors. These included the following:

⁹ Simplification of procedures for appraisal, flexible lending rates linked to credibility of customers, offering flexible terms, financing medium hydro projects, form consortium financing, imparting training by IREDA, upgradation of IREDA to Schedule 'B' Company, formation of joint ventures, GOI equity, multilateral and bilateral LOC, recovery of NPAs through SARFAESI Act, 2002 and recovery of NPA through OTS.

Sl. No.	Item of work	Action to be taken up with GOI	Action taken by IREDA
1	Broad basing of equity	Limit upto which Government equity can be diluted	Referred to MNRE in November 2013
2	Equity through Initial Public Offering (IPO)	To increase the authorised share capital from ₹ 1,000 crore to ₹ 6,000 crore	Referred to MNRE in March 2013
3	Long Term Operation Funds	Sanction of ₹ 500 crore as subordinated loans with tenures of about 40-50 years at an annual interest rate of 3-4 per cent	Matter is pending with MNRE
4	Capital Gains Bond	Permission for issuance of capital gains bonds and tax saving bonds	Matter is pending with GOI
5	Tax free bonds	IREDA was permitted (February 2013) by GOI to mobilise ₹ 1,000 crore by way of tax free bonds for the financial year 2012-13	Funds could not be mobilised reportedly due to receipt of permission towards the close of the financial year and market factors
6	Stressed Assets Stabilisation Fund (SASF)	The matter for creation of SASF was initially taken up by IREDA with MNRE in December 2005 and September 2007	The matter is pending with MNRE

- There were other important issues in the Corporate Plan 2007-12 on which action was either not initiated by IREDA during the Plan period or steps were taken belatedly. These are as brought out in the following page:

Sl. No.	Item of work	Action to be taken by IREDA	Status
1	Consultancy Business	Setting up of a consultancy cell and exploring activities for offering consultancy, publicising and announcing IREDA's plan and generating business	No action was taken and the matter was again incorporated in the Corporate Plan 2012-17
2	Value Chain Financing	To identify various products and prospective clients	No action taken
3	Forming of Focus Groups	Forming focus groups like Strategic Planning Group, Business Development Group, Risk Management Group, Organisational Systems Group, Consultancy Management Group, Knowledge Management Group and Group for recovery of dues to manage NPAs	No action was taken and the matter was again incorporated in the Corporate Plan 2012-17

Sl. No.	Item of work	Action to be taken by IREDA	Status
4	Development of user friendly IT enabled customer interface and Single window interaction with clients	Borrowers' accounts were to be put on the Company's website and a <i>modus operandi</i> was to be evolved for creating a single window interaction with clients/ borrowers	Application is still under trial run (January 2014)

Thus, IREDA prepared the Corporate Plan 2007-12 only after directions from the Task Force of DPE but did not submit it for the BOD's approval. 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 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. Effective planning and strategy implementation becomes critical in view of IREDA's depleting market share.

Recommendation No. 1

The Board of Directors of IREDA may coordinate and monitor execution of the Corporate Plan to improve efficiency and effectiveness of IREDA's operations and to explore new business opportunities.

IREDA accepted the recommendation.

2.5 Annual planning

For each financial year a MoU is signed by IREDA with MNRE, which details various financial and non-financial targets to be achieved by it during the year. Further, MNRE also prepares an outcome budget every year, highlighting the objectives of various programmes and activities of the Ministry and progress made during previous years, as well as details of financial outlays, projected physical outputs and projected/budgeted outcomes for the next year. IREDA's equity from the planned budget of the GOI and estimation of internal and external budgetary resources (IEBR) also gets reflected in MNRE's outcome budget.

2.6 MoU targets inconsistent with Corporate Plan and MNRE Outcome Budget targets

2.6.1 Sanctions

The targets for sanctions set in the Corporate Plan, Outcome Budget and MoU for the period 2008-09 to 2012-13 and the achievements thereagainst are indicated in the Table 2.3 below:

Table 2.3: Targets and achievements in respect of sanctions

₹ in crore

Year	Targets for sanction as per				Achievement	Percentage of achievement variation w.r.t. MNRE Outcome Budget	Percentage of achievement variation w.r.t. 'excellent' target
	Corporate Plan	MNRE Outcome Budget	MoU Excellent target	MoU Basic target			
1	2	3	4	5	6	7 (6/3*100)	8 (6/4*100)
2008-09	1000	900	1000	900	1489.93	165.54	148.99
2009-10	1571	900	1350	1200	1823.91	202.66	135.10
2010-11	2286	1860	2135	1900	3126.42	168.09	146.44
2011-12	2574	2625	2888	2625	3405.96	129.75	117.93
2012-13	3521	3520	4000	3760	3747.36	106.46	93.68

From the above, it is evident that the actual loans sanctioned by IREDA persistently exceeded the target of sanction of loan reflected in the Outcome Budget. Similarly the achievement in respect of loans sanctioned against MoU 'excellent' targets was continuously exceeded, except in 2012-13, where it was short by 6.32 *per cent*. The Corporate Plan targets were also exceeded for each year.

2.6.2 Disbursements

The targets for disbursements set in the Corporate Plan, Outcome Budget and MoU for the period 2008-09 to 2012-13 and the actual achievements are indicated in the following Table 2.4.

Table 2.4: Targets and achievements for disbursement of loans

₹ in crore

Year	Targets for disbursement as per				Achievement	Percentage of achievement variation w.r.t. MNRE Outcome Budget	Percentage of achievement w.r.t. excellent target
	Corporate Plan	MNRE Outcome Budget	MoU Excellent target	MoU Basic target			
1	2	3	4	5	6	7 (6/3*100)	8 (6/4*100)
2008-09	700	650	730	650	770.95	118.61	105.61
2009-10	1100	650	800	710	890.03	136.93	111.25
2010-11	1600	880	1010	900	1224.17	139.11	121.20
2011-12	1800	1218	1340	1218	1855.03	152.30	138.44
2012-13	2026	2030	2500	2350	2125.50	104.70	85.02

It may be seen from the above table that the actual disbursement of loans by IREDA consistently exceeded the targets of disbursement as indicated in the Outcome Budget during 2008-09 to 2012-13. Similarly, the actual loans disbursed against MoU excellent targets were exceeded during the same period, except in the year 2012-13, when it remained short by about 15 per cent.

2.6.3 Audit observations

- Since the MoU targets were being monitored on a quarterly basis by MNRE and annually by DPE these constituted the main framework against which IREDA benchmarked its achievements. However, these MoU targets did not have any correlation either with the targets indicated in the Corporate Plan or in the Outcome Budget of MNRE.
- MoU targets were understated as IREDA consistently exceeded even the ‘excellent’ targets. This was also pointed out by the Task Force committee during finalisation of the MoU for 2008-09, wherein it was observed that the targets for sanctions and disbursements were understated and IREDA could look at higher figures. Similarly, while finalising the MoU for 2009-10 the committee stated that loan sanction should be based on anticipated achievements and not on the basis of targets for the previous year.

The Management stated (April 2014) that the Corporate Plan targets are normally indicative targets which are set envisaging future growth in the sector. MoU targets are set on annual basis and are more realistic in nature.

The Management reply may be seen in the context of IREDA consistently exceeding its MoU targets and its declining market share.

Recommendation No. 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.

The Management partially accepted the recommendation.

2.7 Non-adherence to DPE guidelines for framing MoU between MNRE and IREDA

As per the DPE guidelines (November 2010) regarding framing of MoU between a CPSE and the Ministry, the MoU targets should be realistic, growth-oriented and consistent with the proposed Annual Plan and Budget of the Ministry and the Corporate Plan of the CPSE. Further, ongoing as well as new projects to be implemented by the CPSE and a list of projects completed, projects pending with time and cost overrun and percentage of milestones achieved within the stipulated time should be specifically mentioned in the MoU. In addition to reflecting the financial performance of the CPSE in MoU, quantifiable physical targets are also required to be shown in the MoU as these are significant because they reflect productivity and efficiency of the CPSE.

Audit scrutinised the MoUs entered into by IREDA with MNRE during 2008-09 to 2012-13 and observed that:

- 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.
- The list of projects completed, projects pending with time and cost overrun, and milestones achieved within the stipulated time and new projects to be implemented were not depicted in the MoUs.
- Objectives and targets envisaged in the Result Framework Document (RFD) of MNRE were not reflected in the MoU.
- Despite the need expressed by MNRE in its Strategic plan prepared in February 2011 for the period 2012-13 to 2016-17, for depiction of sector specific financing target in the MoU, no such depiction was made in the MoU for 2012-13.

The Management stated (April 2014) that the guidelines for MoU between CPSE and Ministry are generic guidelines for all PSUs. In case of financial institutions such as IREDA,

the productivity of the CPSE is measured in terms of sanctions and disbursements. As far as physical achievement as outcome is concerned, non-inclusion of this in the MoU is because the actual commissioning of the project lies with the developers, which are not directly under the control of the financial institutions, though it does reflect on certain outcomes.

Audit is of the opinion that quantifiable physical targets may be incorporated in the MoU, as was done in the past, as these provide benchmarks for evaluating the productivity and efficiency of IREDA.

Recommendation No. 3

Quantifiable physical dimensions of the new and ongoing projects be reflected in the MoU.

The Management partially accepted the recommendation stating that the sanction support and MW capacity achieved can be indicated.