

## CHAPTER III

### Public Sector Undertakings and Government Commercial & Trading Activities

#### 3.1 Functioning of State Public Sector Undertakings

##### 3.1.1 Introduction

There were 16<sup>1</sup> State Public Sector Undertakings (PSUs) as on 31 March 2023 in sectors other than Power Sector<sup>2</sup>. These State PSUs were incorporated during the period between 1965 and 2016 and included 14 Government Companies and two Statutory Corporations, *i.e.*, Goa Industrial Development Corporation and Goa Information Technology Development Corporation. The Government Companies included one active subsidiary company (*i.e.*, Goa Electronics Limited) of EDC Limited. The State Government provides financial support to the State PSUs in the form of equity, loans and grants/subsidy from time to time. Of the 16 State PSUs, the State Government invested funds in all except in Goa Electronics Limited. Audit comments on the accounts of the State PSUs have been incorporated in the Audit Report on State Finances for the year 2022-23 separately.

##### 3.1.2 Coverage of this chapter

This chapter contains the result of performance audit and compliance audit on the functioning of the State PSUs, Electricity Department and River Navigation Department. For the Report of the Comptroller and Auditor General of India for the period ended 31 March 2023, one Subject Specific Compliance Audit on Loan Management of EDC Ltd., and four compliance audit paragraphs were issued to the Secretary concerned with a request to furnish replies within four weeks. The replies were awaited from the State Government (January 2025). The total financial impact of these performance audit and compliance audit paragraphs is ₹ 165.87 crore.

##### 3.1.3 Lack of responsiveness of Government to Audit

###### *Inspection reports outstanding*

The Accountant General (AG) arranges to conduct periodical inspections of PSUs, auditable units under the Electricity Department and River Navigation Department to test-check their transactions. The AG also verifies the maintenance of important accounting and other records as per prescribed rules and procedures. These are followed up with inspection

<sup>1</sup> Excluding one new State PSU *viz.*, Goa State Minorities Finance & Development Corporation Limited added in June 2023.

<sup>2</sup> The State Government's Electricity Department executes the functions of power purchase, distribution and maintenance.

reports (IRs) which are issued to the heads of the PSUs inspected with copies to the Administrative departments. Half yearly reports of pending IRs are sent to the Secretaries of the concerned departments, to facilitate monitoring of the action taken on the audit observations included in these IRs.

As of June 2023, 127 IRs (639 paragraphs) were outstanding for want of compliance from the PSUs, Electricity Department and River Navigation Department. Details of IRs and paragraphs outstanding are given in **Table 3.1**.

**Table 3.1: Details of IRs and paragraphs outstanding**

*(Figures in number)*

Name of PSU/Department	June-2021		June-2022		June-2023	
	IRs	Paras	IRs	Paras	IRs	Paras
EDCL	06	29	07	22	04	16
GSIDCL	04	23	05	29	06	36
GAAL	01	04	01	04	01	04
GSSTFDCL	01	07	01	07	01	07
GEL	02	04	02	02	01	01
GFDCL	04	15	04	15	04	15
GSSCOBCFDCL	02	19	03	16	03	16
GHRSSIDCL	01	08	01	08	01	08
GSHCL	04	18	04	11	04	06
ITCGL	05	31	05	31	05	30
SIDCGL	03	10	03	07	02	04
GTDCL	04	18	05	22	05	22
KTCL	01	09	02	16	02	16
GIDC	09	95	10	104	10	98
GITDC	01	02	01	02	01	02
Electricity Department	76	365	74	336	69	311
River Navigation Department	06	37	06	37	08	47
<b>Total</b>	<b>130</b>	<b>694</b>	<b>134</b>	<b>669</b>	<b>127</b>	<b>639</b>

(Source: Compiled from Audit records)

### 3.1.4 Follow-up action on Audit Reports

#### *Replies outstanding*

The Report of the Comptroller and Auditor General of India is a product of audit scrutiny and it is imperative that they elicit appropriate and timely response from the executive. All the Administrative departments of PSUs are required to submit explanatory notes indicating the corrective/remedial action taken or proposed to be taken on paragraphs and performance audits (PA) included in the Audit Reports. The Finance Department, Government of Goa issues every year, instructions to all Administrative departments to submit replies/explanatory notes on paragraphs/PAs within a period of three months of presentation of the respective Audit Reports to the Legislature, in the prescribed format without waiting for any questionnaire from the Committee on Public Undertakings (COPU). The status of explanatory notes not received as on 31 March 2024 is given in **Table 3.2**.

**Table 3.2: Position of explanatory notes not received (as on 31 March 2024)**  
*(Figures in number)*

Year of the Audit Report (PSU) <sup>3</sup>	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2015-16	07/08/2017	1	1	0	1
2018-19	29/01/2021	1	1	0	1
<b>Total</b>		<b>2</b>	<b>2</b>	<b>0</b>	<b>2</b>

(Source: Compiled based on explanatory notes received from respective departments)

One explanatory note each from Sewerage and Infrastructural Development Corporation of Goa Limited and Goa Electricity Department are pending for submission.

#### **Discussion of Audit Reports by COPU**

The status of discussion, of Performance Audits and Paragraphs, relating to Economic Sector that appeared in Audit Report, by the Committee on Public Undertakings (COPU) as on 31 March 2024 is given in **Table 3.3**.

**Table 3.3: PAs and Paragraphs appeared in Audit Reports vis-à-vis discussed as of 31 March 2024**

*(Figures in number)*

Year of the Audit Report (PSU)	Number of PAs/Paragraphs			
	Appeared in Audit Report		Discussed by COPU	
	PAs	Paragraphs	PAs	Paragraphs
2016-17	0	4	0	4
2017-18	1	1	1	1
2018-19	1	1	1	0
2019-20	0	2	0	1
2020-21	0	0	0	0
<b>Total</b>	<b>2</b>	<b>8</b>	<b>2</b>	<b>6</b>

(Source: Compiled based on the discussions of COPU on the Audit Reports)

#### **Compliance to Reports of COPU**

Action Taken Notes (ATNs) on five reports of the COPU presented to the State Legislature in February 2011, December 2017, January 2019<sup>4</sup> and January 2021 are awaited (March 2024) as indicated in **Table 3.4**.

**Table 3.4: Compliance to COPU Reports**

Year of the COPU Report	Total number of COPU Reports	Total number of recommendations in COPU Reports	Number of recommendations where ATNs were not received
2009-11	1	4	4
2014-15	1	8	8
2017-18	1	6	6

<sup>3</sup> Explanatory Notes for the AR 2016-17, 2017-18 and 2019-20 have been received, however, there is no Audit Paragraph for this chapter in the AR 2020-21. The AR for 2021-22 was placed in the Legislature on 08/08/2025.

<sup>4</sup> Two COPU Reports in 2018-19.

Year of the COPU Report	Total number of COPU Reports	Total number of recommendations in COPU Reports	Number of recommendations where ATNs were not received
2018-19	2	12	12
2019-20	1	4	4

(Source: Compiled based on recommendations of COPU)

These Reports of COPU contained recommendations in respect of paragraphs which appeared in the Audit Report of the CAG of India for the year 2003-04, 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 respectively.

***Recommendation 1: The State Government may ensure that replies to Paragraphs/Performance Audits and ATNs on the recommendations of COPU are furnished as per the prescribed time schedule.***

### Finance Department

#### 3.2 Subject Specific Compliance Audit on Loan Management of EDC Limited (2018-23)

**EDC Ltd. (EDC)** is a Non-Banking Financial Company (NBFC), set up by the Govt. of Goa with the main objective of providing financial assistance to entrepreneurs (MSMEs<sup>5</sup>). The activities of loan management of EDC for the period 2018-19 to 2022-23 was audited to assess whether the sanction and disbursement of loans were in accordance with the prescribed guidelines, the process of recovery of dues were in accordance with the mandate to minimize waivers and whether EDC effectively discharged its role and fulfilled its mandate pertaining to loan management.

Scrutiny of loan sanctions and disbursements revealed deficiencies in loan appraisals and loan security, resulting in lower interest rates being charged on loans. Further, the interest rates were not reviewed periodically by the Board as was required by the Standard Operating Procedure (SOP), and selective borrowers were offered interest rate reductions.

Scrutiny of One Time Settlement (OTS) cases revealed non-compliance with the conditions of OTS scheme resulting in higher principal waivers extended to selective defaulters.

The recovery from the defaulters of written-off loans was adversely impacted due to lack of follow-up action required to be taken by EDC despite favourable court verdicts and in some defaults, due to non-filing of court cases thereby delaying their resolution.

<sup>5</sup> Micro, Small and Medium Enterprises

**The data of defaulters were not accurately reported to Credit Information Companies (CICs like CIBIL) which also weakened the recovery process.**

**Audit observed the absence of long term corporate business planning with a vision to drive the business direction in EDC resulting in a continuous decline in the loan portfolio. The annual profits of ₹ 250 crore (during the audit period) were retained by EDC without any realistic plan for its deployment in furtherance of the core mandate of lending to MSMEs.**

### **3.2.1 Introduction**

EDC Ltd. (EDC) was incorporated on 12 March 1975, and has been registered<sup>6</sup> as a Non-Banking Financial Company (NBFC<sup>7</sup>) with Reserve Bank of India (RBI) and classified as NBFC-ND-SI (Non-Deposit taking Systemically Important). It was notified as a financial institution in January 1993 and provisions of Sections 29, 30 and 31 of the State Financial Corporations Act<sup>8</sup>, 1951 were made applicable. The main objectives of EDC are as follows:

- To carry on the business of a financial institution by providing financial assistance to entrepreneurs (MSMEs<sup>9</sup>).
- To act as an agent for the disbursement of various schemes, incentive, and benefits on behalf of the Government.

As on 31 March 2023, EDC had an equity capital of ₹ 100.92 crore held by Government of Goa (GoG) (85.42 *per cent*), IDBI Bank Ltd., (11.42 *per cent*) and Administration of Daman and Diu (3.16 *per cent*).

### **3.2.2 Organisational set-up**

The Board of Directors<sup>10</sup> (Board) is the policy making body while their execution is through the Managing Director (MD). The organizational chart of EDC is depicted in **Appendix 3.1**.

<sup>6</sup> *Vide* Certificate of Registration N-13.02341 dated 22 May 2019

<sup>7</sup> A company engaged in the business of loans and advances but not offering banking services of demand deposits, self-cheques, *etc.*, and does not form part of the payment and settlement system of banks.

<sup>8</sup> To facilitate efficient handling of loan defaults through takeover of the unit, recall of loans and other reliefs.

<sup>9</sup> Micro, Small and Medium Enterprises; involving maximum investment in Plant and Machinery upto ₹ 50 crore and turnover upto ₹ 250 crore

<sup>10</sup> Chairman, Vice-Chairman, Finance Secretary or his nominee, six Directors nominated by Government, nominee of IDBI and Managing Director (*vide* GoG Notification No. 470 of 31 October 2018)

### 3.2.3 EDC's loan products - An overview and its position as on 31 March 2023

EDC extends financial assistance under various loan schemes *i.e.*, term loans, Government loan, Government funded schemes<sup>11</sup>, personal loans, subsidy<sup>12</sup> and staff loans. The loan schemes are explained in detail in **Appendix 3.2**.

The loan portfolio as on 31 March 2023 is detailed in **Table 3.5**.

**Table 3.5: Details of loan book position as on 31 March 2023**

Sl. No.	Name of loan scheme	Short name	Net Advances as on 31 March 2023 (₹ in crore)	Loan Accounts
1	Loan assistance to State Government agencies	Government Loan <sup>13</sup> (Govt.)	225.43	7 <sup>14</sup>
2	Financial assistance against mortgage of immovable properties		21.66	5
3	Loan assistance for Construction Projects		12.01	4
4	Term Loan assistance to Qualified Professionals		1.77	9
5	Composite Loan Scheme for EDC Clients with good track record		62.85	17
6	General Term Loan Scheme		57.32	43
7	EDC Credit Support Scheme		5.36	10
8	Personal Loan Scheme	Personal Loan	56.50	580
9	Chief Minister's Rojgar Yojana	CMRY	23.93	2215
10	EDC Employees Staff Loan	Staff Loan	1.13	27
11	Goa Tribal's Employment Generation Programme	GTEGP	0.00	Govt. Scheme <sup>16</sup>
<b>Total</b>			<b>467.96</b>	<b>2917</b>

(Source: Data collected from EDC's records)

### 3.2.4 Funding

The loans are primarily financed through own funds (Equity and Reserves & Surplus<sup>17</sup>). EDC also utilized the Government deposits parked with EDC and availed bank loan/overdraft where needed. Details of loans outstanding *vis-à-vis* own funds of five years from 2018-19 to 2022-23 is given in **Table 3.6**.

<sup>11</sup> Chief Minister's Rojgar Yojana, Goa Tribal's Employment Generation Programme

<sup>12</sup> Modified Interest Rebate Scheme (A scheme of interest subsidy from Government to borrowers through EDC)

<sup>13</sup> Loan to Government agencies, PSUs and Departments

<sup>14</sup> Goa Education Development Corporation-₹ 2.44 crore; GSIDC-₹ 151 crore; SIDCGL-₹ 71.99 crore

<sup>15</sup> Financial assistance against mortgage of immovable property, Loan assistance for Construction Projects, Term Loan assistance to Qualified Professional, Composite Loan scheme for EDC Clients with good track record, General Term Loan scheme and EDC Credit support scheme (during COVID-19 pandemic period)

<sup>16</sup> GTEGP scheme is implemented by EDC but is entirely funded by Government of Goa.

<sup>17</sup> Comprising of accumulated profits

**Table 3.6: Details of loan portfolio vis-à-vis Own funds (2018-19 to 2022-23)**  
(₹ in crore)

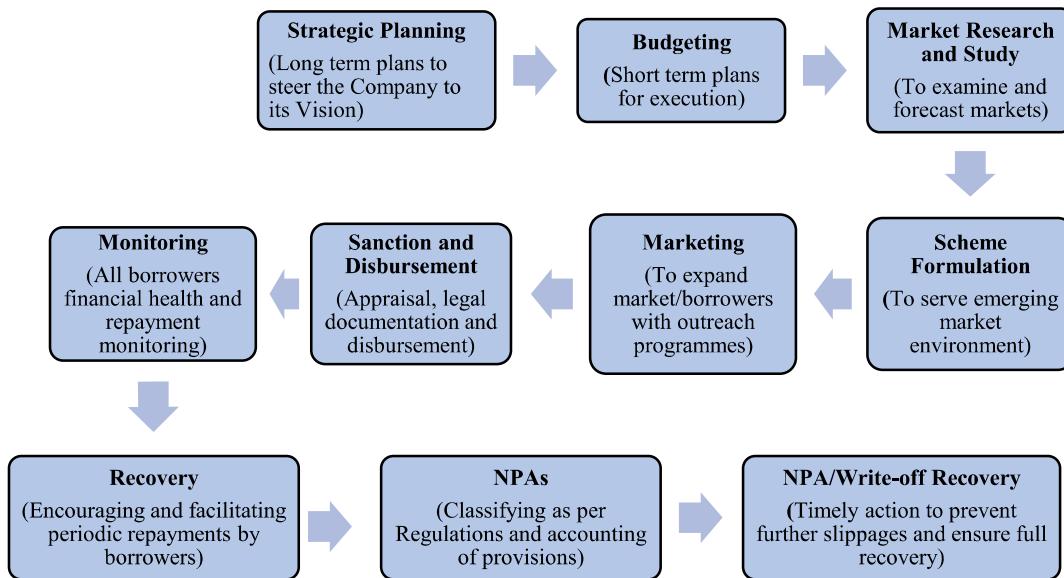
Year	Loan portfolio	Equity (A)	Reserves & Surplus (B)	Own funds (C=A+B)
2018-19	850.53	100.92	426.76	527.68
2019-20	752.47	100.92	452.11	553.03
2020-21	645.05	100.92	522.48	623.40
2021-22	540.28	100.92	591.80	692.72
2022-23	467.96	100.92	648.67	744.97

(Source: Financial Statements and party-wise loan data of EDC)

### 3.2.5 Loan management at a glance

The activities under loan management are depicted in **Chart 3.1**.

**Chart 3.1: Activities under loan management**



The above activities under loan management were examined in the audit. The step-by-step process of lending is explained in **Appendix 3.3**.

### 3.2.6 Audit objectives

The audit of loan management of EDC was carried out with a view to assess whether:

- the sanction and disbursement of loans were in accordance with the prescribed guidelines.
- the process of recovery of dues (NPAs and written-off loans) were in accordance with the EDC's mandate to minimize waivers.
- EDC effectively discharged its role and fulfilled its mandate pertaining to the loan management.

### 3.2.7 Scope and methodology

The present audit covers the loan management of EDC during the period 2018-19 to 2022-23 by way of sampling<sup>18</sup> 30 cases each from amongst 106 loan sanctions, 156 OTS closures and 106 write-off/NPA accounts as detailed in the **Table 3.7**. This covered all term loans<sup>19</sup> and Government loans comprising of 82.57<sup>20</sup> *per cent* of the EDC's loan portfolio. The CMRY and Personal loans were excluded for audit (due to their lower proportion<sup>21</sup>) though their overall statistics and business contribution is covered in the report.

**Table 3.7: Details of sample selected**

	Types of Cases	Particulars (in ₹)	Total cases	Sampling (per cent)	Cases selected for scrutiny
A.	<b>Loans Sanctioned</b> (Total 106 cases; ₹ 818.90 crore)	0 to 4.99 crore	85	10	9
		5 crore to 9.99 crore	12	100	12
		10 crore & above	9	100	9
B.	<b>One Time Settlement</b> (Total 156 cases; waiver of ₹ 80.53 crore)	0 to 49.99 lakh	129	10	13
		50 lakh to 1.99 crore	20	50	10
		2 crore & above	7	100	7
C.	<b>NPA &amp; Write-off cases</b> (Total 99 cases; with principal write-off being ₹ 57.72 crore)	-	-	-	-
		NPA	upto 3.55 crore	7	100
		Write-off cases	0 to 99.99 lakh	59	10
			1 crore to 4.99 crore	30	24
			5 crore & above	10	100

The audit objectives were discussed with EDC during the Entry Conference held on 14 August 2023. The findings were discussed in the exit conference held on 29 May 2024 with Principal Secretary (Finance) and the views expressed during the exit conference have been included along with Government's replies, wherever necessary.

### Audit findings

#### 3.2.8 Sanctions and disbursements of loans

The first objective of audit was to assess whether the sanction and disbursement of loans were in accordance with the prescribed guidelines. Audit noticed that the appraisal process was deficient, the nature/title of security was defective in some cases, the interest rates were not reviewed

<sup>18</sup> Through 'Stratified Random Sampling'

<sup>19</sup> All loans excluding staff loan, personal loan & CMRY loan.

<sup>20</sup> ₹ 386.40 crore (Infrastructure ₹ 225.43 crore *plus* Term Loan ₹ 160.97 crore) / ₹ 467.96 crore (Loan book)

<sup>21</sup> CMRY and staff/personal loans constituted only 5.11 *per cent* (₹ 23.93 crore out of ₹ 467.96 crore) and 12.32 *per cent* (₹ 57.62 crore out of ₹ 467.96 crore) respectively of EDC's loan book.

periodically and selective interest rate reductions were offered. Detailed audit findings are discussed in succeeding **paragraphs (3.2.8.1 to 3.2.8.3)**.

**3.2.8.1 Incorrect appraisal (credit rating process) resulting in grant of loans at lower interest rates**

EDC evaluated the loan applications based on 19 parameters like management factors, industry risk, financial risk, *etc.*, as outlined in clause (h) of para 2.3 and Annexure 2.3 B of Standard Operating Procedures (SOP). The interest rate applicable was determined by the marks obtained in such credit rating. In four loan accounts out of 30, excess marks were awarded in credit rating causing loss of interest revenue of ₹ 1.03<sup>22</sup> crore (Case wise details are provided in **Appendix 3.4**) as mentioned in **Table 3.8** below.

**Table 3.8: Details of excess marks awarded in credit rating**

Sl. No.	Name of the borrower	Loan amount sanctioned	Marks awarded by EDC	Marks to be awarded	Excess marks awarded	Interest charged	Interest chargeable
1	Healthway Hospitals P. Ltd.	₹ 25 crore	73	53	20 (for operational experience)	11.50 per cent	12.50 per cent
2	Adwalpalkar Healthcare P. Ltd.	₹ 5 crore	69	49	20 (for operational experience)	11.00 per cent	12.50 per cent
3	Livom P. Ltd.	₹ 7 crore	66	51	15 (for operational experience)	11.00 per cent	12.50 per cent
4	Mepra Medicaments P. Ltd.	₹ 7 crore	60	52	8 (six marks in management factors, two marks in financial factors)	11.50 per cent	12.50 per cent

(Source: Scrutiny of loan appraisal file)

On the above being pointed out, EDC replied (December 2023) that higher marks were awarded for the applicant's good repayment history with other banks among other reasons offered which were not correct due to awarding marks twice for good track record as detailed in **Appendix 3.4** with rebuttal thereto.

<sup>22</sup> Interest from January 2019 to March 2022 being ₹ 8.86 crore @ 11.50 per cent [(8.86 crore/11.50) = ₹ 77.05 lakh] and from April 2022 being ₹ 2.42 crore @ 9.50 per cent [(2.42 crore /9.5) = ₹ 25.52 lakh] = ₹ 1.03 crore

### **3.2.8.2 Sanction of loan with defective/insufficient security**

For every term loan, the scheme documents and clause (B) (iv) of para 2.2 and clause (iii) of Guiding rule II of the SOP manual prescribed that security in the form of immovable non-agricultural property may be reckoned as security (primary/additional/collateral) of value equivalent or more to the loan sanctioned. It also states that only non-agricultural land with clear title and ‘Conversion Sanad<sup>23</sup>’ was to be considered as security for the loans. In three loans (involving two borrowers) out of 30, the security offered was found to be ineligible and had defective title to cover the principal amount as detailed in **Table 3.9** and in **Appendix 3.5**.

**Table 3.9: Details of loans with shortfall in security**

Sl. No.	Name of borrower	Sanction amount and date (A)	Security considered by EDC (B)	Value of eligible security as per SOP (C)	Shortfall of security amount (A-C=D)
1	Alcon Constructions (Goa) P. Ltd. (ALCON)	₹ 16 crore; 26 October 2021	<p>₹ 45.04 crore</p> <ul style="list-style-type: none"> <li>Industrial Land: ₹ 4.69 crore (13,400m<sup>2</sup> X ₹ 3,500/m<sup>2</sup>)</li> <li>Agricultural Land: ₹ 15.40 crore (1,28,300m<sup>2</sup> X ₹ 1,200/m<sup>2</sup>)</li> <li>Project Building: ₹ 6.45 crore</li> <li>Associate's<sup>24</sup> Hotel: ₹ 18.50 crore</li> </ul>	<p>₹ 12.24 crore</p> <ul style="list-style-type: none"> <li>Industrial Land: ₹ 2.71 crore (13,400m<sup>2</sup> X ₹ 2,020/m<sup>2</sup>)</li> <li>Agricultural Land: ₹ 3.08 crore (1,28,300m<sup>2</sup> X ₹ 240/m<sup>2</sup>)</li> <li>Building: ₹ 6.45 crore</li> <li>Associate's Hotel: Nil (due to ongoing loan of Associate)</li> </ul>	₹ 3.76 crore
2	DRK Ventures LLP (DRK)	₹ 30 crore; 05 November 2019	<p>₹ 179.41 crore</p> <ul style="list-style-type: none"> <li>Land: ₹ 19.81 crore.</li> <li>Building: ₹ 16.15 crore</li> <li>Associate's<sup>25</sup> Land &amp; Building: ₹ 143.45 crore</li> </ul>	<p>₹ 16.15 crore</p> <ul style="list-style-type: none"> <li>Land: Nil (defective title)</li> <li>Building: ₹ 16.15 crore</li> <li>Land &amp; Building: Nil (unapproved by Associate)</li> </ul>	₹ 18.85 crore
3		₹ 5 crore; 26 May 2021			

In case of loan to ALCON, 1.28 lakh m<sup>2</sup> of ‘agricultural garden land’ was reckoned as security and valued at a higher rate S1(settlement rate) of ₹ 1,200/m<sup>2</sup> instead of valuing it at agricultural land rate<sup>26</sup> of ₹ 240/m<sup>2</sup>. Moreover, the said agricultural land was a ‘no development slope’ in an

<sup>23</sup> The conversion of use of land from agriculture to non-agriculture purpose. (Source: GoG website)

<sup>24</sup> ALCON Hotels (Goa) P. Ltd.; Loan a/c no. 00006106 - ₹ 10 crore

<sup>25</sup> Kamat Construction and Resorts P. Ltd.

<sup>26</sup> Minimum base rate of agricultural land (80 per cent of base rate of ₹ 1,200/m<sup>2</sup>)

ecologically sensitive area (ECO-1) as per Land Use Plan document of 2021 and should not have been considered as security for a commercial loan. Also, the property of an associate<sup>27</sup> valued at ₹ 18.50 crore was incorrectly considered as additional security though it was already reckoned as security in another loan.

In respect of loan to DRK, the land (primary security) valued at ₹ 19.81 crore offered as security was without a clear title<sup>28</sup>. Further, an additional security of an associate<sup>29</sup> valued at ₹ 143.45 crore was considered without obtaining due confirmation from the associate borrower entity.

EDC replied that the deviations from SOP were in exercise of their discretion among other reasons offered which were incorrect due to higher valuation and defective title of collateral security as detailed in **Appendix 3.5** with rebuttal thereto. Government further stated (July 2024) that the audit recommendation shall be reviewed by the Board for appropriate changes.

***Recommendation 2: EDC may implement measures to strengthen the appraisal process, including the adoption of more robust credit rating metrics. Additionally, it may ensure that loans are backed by effective security, with clear titles and free from encumbrances.***

#### **3.2.8.3 Loss of revenue of ₹ 118.39 lakh due to irregular and selective reduction of the interest rate on term loans**

Clause (B) (vii) of Para 2.2 of SOP manual prescribed that the lending rates to be charged by EDC is determined after periodical review of all important metrics<sup>30</sup>. This lending rate is applied to all small loans (up to ₹ 50 lakh), while for larger loans, the additional interest is charged (up to three *per cent*) based on the credit rating exercise. All the term loans are eligible for annual interest subsidy by the Government up to nine *per cent* under MIRS<sup>31</sup> scheme. So, the effective cost to the borrowers of EDC is reduced by the extent of the subsidy. The lending rate during the audit period was 10.50 *per cent* till July 2021 and was revised downwards to 9.50 *per cent* thereafter.

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<sup>27</sup> ALCON Hotels (Goa) P. Ltd.; TL account no. 00006106 - ₹ 10 crore

<sup>28</sup> As the land was not registered in the name of the borrower as per the Title investigation report.

<sup>29</sup> Kamat Construction and Resorts P. Ltd.

<sup>30</sup> Prevalent bank rates for MSME lending, cost of funding, FD interest rates, liquidity position, prevalent interest subsidy to borrowers, RBI's indicative rates, etc.

<sup>31</sup> Modified Interest Rebate Scheme (MIRS): All the term loans are eligible for interest subsidy (upto nine *per cent*) from Government of Goa by way of two *per cent* subsidy for Women entrepreneurs, additional two *per cent* subsidy for Goan entrepreneurs and an additional five *per cent* subsidy for units located in backward talukas.

Clause 3(i) in the special terms and conditions of term loans, as well as Paragraph "I" in loan agreements, clearly stipulated that the term loan would carry interest as determined by the credit rating exercise or such higher rate as decided periodically. EDC revised<sup>32</sup> (July 2021) its lending rates from 10.50 *per cent* to 9.50 *per cent* with effect from 01 July 2021 for new borrowers.

Audit observed that EDC irregularly reduced the interest rate (between 1.00-2.50 *per cent*) for five (out of 30 sampled) ongoing term loan accounts upon requests from borrowers citing lower rates being offered by private banks and general inflationary pressures on their costs. Such selective and out-of-turn interest rate reduction for a few borrowers was not fair and also vitiated the provisions of loan agreement and resulted in a revenue loss of ₹ 118.39 lakh until 31 March 2023 as indicated in **Table 3.10** with detailed explanation of each case in **Appendix 3.6**.

**Table 3.10: Details of irregular reduction of interest rate after signing of loan agreement**

Sl. No.	Borrower	Loan Amount (₹) interest rate and disbursement date	Revised Interest rate and effective date	Reduction in interest	Difference (in ₹)
1	Healthway Hospitals P. Ltd. (01120901)	25 crore @ 11.50 <i>per cent</i> from 28 February 2019	9.50 <i>per cent</i> 01 April 2022	2.00 <i>per cent</i>	41,51,123 <sup>33</sup>
2	Armacar Holdings P. Ltd. (01136601)	12 crore @ 11.00 <i>per cent</i> from 30 August 2019	9.50 <i>per cent</i> 01 July 2021	1.50 <i>per cent</i>	24,35,021 <sup>34</sup>
3	Raj Housing Development P. Ltd. (01160601)	13.35 crore @ 13.50 <i>per cent</i> from 07 January 2020	11 <i>per cent</i> 01 July 2022	2.50 <i>per cent</i>	19,26,950 <sup>35</sup>
4	DRK Ventures LLP (01156701)	30 crore @ 10.50 <i>per cent</i> from 06 February 2020	9.50 <i>per cent</i> 01 April 2022	1.00 <i>per cent</i>	28,24,348 <sup>36</sup>
5	DRK Ventures LLP (01156702)	5 crore @ 10.50 <i>per cent</i> from 15 July 2021	9.50 <i>per cent</i> 01 April 2022	1.00 <i>per cent</i>	5,01,550 <sup>37</sup>
<b>Total</b>					<b>1,18,38,992</b>

Clause 3 of Guiding rule -II of SOP manual prescribed review of lending rates based on the market conditions once every six months. However, EDC reviewed its lending rates only twice (06 March 2020 and 02 July 2021) and revised the rate once (02 July 2021). A periodical review of all important metrics and timely adjustment of lending rate was essential in ensuring new business (new loans off-take) as well as optimizing interest revenue. Though RBI had raised its policy rates six

<sup>32</sup> *Vide* BM-383/Item-3/Resolution-5378 dated 02 July 2021

<sup>33</sup> Loss of interest: ₹ 1,97,17,835 X (11.50-9.50)/9.50 = ₹ 41,51,123

<sup>34</sup> Loss of interest: ₹ 1,54,21,800 X (11.00-9.50)/9.50 = ₹ 24,35,021

<sup>35</sup> Loss of interest: ₹ 84,78,579 X (13.50-11.00)/11.00 = ₹ 19,26,950

<sup>36</sup> Loss of interest: ₹ 2,68,31,306 X (10.50-9.50)/9.50 = ₹ 28,24,348

<sup>37</sup> Loss of interest: ₹ 47,64,731X (10.50-9.50)/9.50 = ₹ 5,01,550

times in the one year period (from REPO<sup>38</sup> rate of 4.00 *per cent* in April 2022 to 6.50 *per cent* in February 2023), EDC did not increase its rates or review the key metrics. Matching every counteroffer from private entities and lowering the interest rate posed a serious financial risk to EDC, as it was not in the practice of monitoring and emulating every competitive move of banks during upward rate revisions.

EDC replied (November 2023) that considering the audit observations, the future interest rates have been linked to RBI REPO rate to avoid selective reductions. Further, EDC clarified that (i) the interest rate was reduced for some borrowers considering the threat of almost 50 *per cent* borrowers shifting to private banks like the three borrowers<sup>39</sup>; and (ii) the reduction of interest rate for some borrowers was as per the revised credit rating.

The reply is not correct as (i) the borrowers had contracted for the determined rate of interest reckoning interest subsidy; (ii) the interest rate derived in the loan appraisal was applicable<sup>40</sup>; and (iii) not a single borrower had, citing higher rates, shifted away from EDC by relinquishing the Government subsidy (the three examples cited by EDC pertained to defaulters who were ineligible for any interest subsidy).

The Government further replied (July 2024) that (i) the interest was reduced considering lower rates offered by banks and (ii) the audit recommendation shall be reviewed by the Board for appropriate changes. The fact remained that the interest rate increase was not effected from April 2022 till December 2023 and the interest rate reduction was done selectively to few borrowers.

*Thus, the interest rates were not reviewed periodically by the Board and selective borrowers were offered interest rate reductions.*

***Recommendation 3: EDC may ensure timely review of interest rates as per extant policy and avoid selective interest rate reductions.***

### **3.2.9 Process of recovery of loans from defaulters**

The second objective of audit was to assess whether the process of recovery of dues was in accordance with the mandate to minimize waivers. Excessive principal waivers were noticed in the OTS settlements while the written-off loans were not pursued despite favourable court orders as detailed in succeeding **paragraphs (3.2.9.1 and 3.2.9.2)**.

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<sup>38</sup> RBI's 'Repurchase Option' rate at which banks borrow from RBI

<sup>39</sup> LINC Infra Engineering P. Ltd. - ₹ 1.44 crore; Shaun Filaments - ₹ 5.78 crore; Pryto P. Ltd. - ₹ 72.05 lakh

<sup>40</sup> Para 2.2 pertaining to Financial norms and Guidelines for processing of Term loan applications under (B) Financing parameters, Pg 45 of SOP manual.

### **3.2.9.1 One-Time Settlement (OTS) scheme**

During the audit period, 156 defaulted loans were settled under the following three OTS schemes:

- (i) Special One-Time Settlement Scheme (SOTS)<sup>41</sup> of 2017 (22 loans accounts sampled out of 143).
- (ii) EDC Loan Compromise Settlement Guidelines (ELCSG)<sup>42</sup> of 2015 (7 loans accounts sampled out of 11).
- (iii) Special One-Time Settlement Scheme under barge portfolio (OTS Barge)<sup>43</sup> of 2015 (one loan account sampled out of two).

#### ***(i) Special One-Time Settlement Scheme***

In order to reduce the administrative overheads on chronic NPA Accounts<sup>44</sup>, EDC formulated a Special OTS scheme for the loan portfolio with disbursement up to ₹ 15 lakh which was extended<sup>45</sup> further to all outstanding term loans upto ₹ 15 lakh (principal outstanding) as on 31 March 2019. There were three categories in the Special OTS Scheme to determine the settlement value as detailed in **Table 3.11** below:

**Table 3.11: Details of category wise settlement for term loans upto ₹ 15 lakh as per the OTS scheme 2017**

<b>Term loan category</b>	<b>Settlement amount payable</b>
Disbursements from 01/04/1997 to 31/03/2002 (More than 15 years & upto 20 years)	Entire principal (disbursed amount) <i>less</i> gross repayments made towards principal, interest, <i>etc.</i>
Disbursements from 01/04/1992 to 31/03/1997 (More than 20 years & upto 25 years)	75 <i>per cent</i> of entire principal (disbursed amount) <i>less</i> gross repayments made towards principal, interest, <i>etc.</i>
Disbursements prior to 01/04/1992 (More than 25 years)	50 <i>per cent</i> of entire principal (disbursed amount) <i>less</i> gross repayments made towards principal, interest, <i>etc.</i>

Audit observed that five loan accounts were incorrectly settled under the Special OTS scheme (due to incorrect categorization of defaulters) with excess waiver of ₹ 8.60 lakh as detailed in **Appendix 3.7**.

EDC stated (December 2023) that the age of the loan on the settlement date was considered for categorization (instead of the prescribed categorization) and also that the interest tax and other expenses were not

<sup>41</sup> A Special One-time Settlement Scheme approved by the Board in July 2017 for settlement of loans upto ₹ 15 lakh in which applicants get full waiver of interest and also some Principal waiver based on the age of loans.

<sup>42</sup> The OTS scheme “EDC Loan Compromise Settlement Guidelines (ELCSG)”, approved by the Board in August 2015 *vide* resolution no. 4739 for settlement of loans disbursed prior to 01 April 2012.

<sup>43</sup> “Special OTS Scheme of EDC Ltd. for all NPA accounts under Barge Portfolio” for its nine barge loan accounts approved (15 January 2015) by GoG, with the scheme validity up to 31 March 2015.

<sup>44</sup> NPA loans that, despite efforts to resolve them, have continued to remain in default status for various reasons like litigation, structural business problems, sectoral issues, Government’s policy changes, *etc.*

<sup>45</sup> *Vide* resolution No. 5152 BM 366 dated 03 June 2019

recoverable due to the interest waiver. However, this response is not correct as the defaulters were eligible for a principal waiver (25/50 *per cent*) at the time of the formulation of the Special OTS scheme (2017) and EDC's reckoning of the age of the loan on the date of settlement instead of the age on the date of the SOTS scheme actually enhanced the waivers for those defaulters who delayed settling the loan. Consequently, the defaulters were incentivized with higher principal waivers as the loan aged due to delayed settlement. All other expenses incurred by EDC including interest tax were also recoverable as seen in all other<sup>46</sup> OTS cases. Thus, five loans out of 22 were settled under SOTS scheme with an excess waiver of ₹ 8.60 lakh to the defaulters.

#### *(ii) Special OTS Scheme under barge portfolio*

EDC formulated “Special OTS Scheme of EDC Ltd. for all NPA accounts under Barge Portfolio” as per the scheme<sup>47</sup> notified by GoG to provide debt relief to mining affected borrowers. It was approved (15 January 2015) by GoG, with the scheme validity up to 31 March 2015. The defaulters (those classified as NPA as on 30 September 2014) had to apply for the scheme with a down payment of 10 *per cent* of outstanding principal amount for a settlement as per the scheme’s formula<sup>48</sup>. The scheme provided for interest waiver from 01 October 2012. The defaulters had to pay in one lump sum within 90 days without any interest. In case of an extension of time for settlement, the borrower was to pay at least 50 *per cent* of the settlement amount within the normal period of 90 days and the balance amount in three monthly instalments together with simple interest at the applicable rate.

In respect of the barge loan of ₹ 2.67 crore availed (April 2009) by Domrine Shipping Company P. Ltd. (DSCPL), the loan account was classified as NPA on 30 September 2014 with total outstanding dues of ₹ 2.87 crore<sup>49</sup>. The OTS amount worked out to ₹ 2.10 crore<sup>50</sup> *plus* applicable expenses. DSCPL, without applying for OTS with down payment of ₹ 19.45 lakh (10 *per cent* of ₹ 1.95 crore as per the scheme), demanded principal waivers of 50<sup>51</sup>/30<sup>52</sup> *per cent*, etc., over and above the

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<sup>46</sup> M/s Sharvani Service Centre, M/s Bhagwati Food products, United Springs, etc.

<sup>47</sup> All truck/barge loan borrowers were eligible for Government subsidy of 35 *per cent* (upto a maximum of ₹ 35 lakh) on the settlement amount offered by respective financial institutions as per their own policies.

<sup>48</sup> Principal balance *plus* interest dues as on 30 September 2012 *plus* outstanding expenses till the date of settlement

<sup>49</sup> Principal ₹ 1.95 crore *plus* Interest ₹ 0.90 crore *plus* expenses ₹ 0.02 crore = ₹ 2.87 crore.

<sup>50</sup> Principal of ₹ 1.95 crore *plus* Interest dues of ₹ 0.15 crore as on 30 September 2012 = ₹ 2.10 crore

<sup>51</sup> *Vide* request letter dt. 25 January 2016 and responded by EDC on 17 February 2016 with refusal of waiver.

<sup>52</sup> *Vide* request letter dt. 30 March 2016 and responded by EDC on 11 April 2016 with refusal of waiver.

prescribed interest waiver (from 01 October 2012) and 35 *per cent* subsidy due from the Government. DSCPL's request for additional principal waivers were rejected in February and April 2016 respectively by EDC citing absence of provision for additional waivers in the special OTS scheme for the barge sector as approved by GoG. Thereafter, upon referral (30 July 2018) by EDC of the matter of additional waiver in respect of DSCPL to Government, the GoG turned down the request for further waiver in January 2019.

As DSCPL did not settle the dues, EDCL went ahead with legal process for recovery of the amount and also secured<sup>53</sup> (13 December 2018) the possession of the barge (principal security) by enforcing the provisions under SARFAESI<sup>54</sup> Act, 2002. Although DSCPL resorted to litigation, the High Court's verdict (19 July 2019) was in favour of EDC. Despite the favourable court verdict and the possession of attached primary security and five<sup>55</sup> immovable properties as additional security, EDC's Board decided (28 August 2019) once again to review its rejection of the principal waiver and sought approval of GoG for an additional 30 *per cent* principal waiver of ₹ 58.35 lakh<sup>56</sup> to DSCPL. GoG, in turn, without agreeing to the additional principal waiver asked EDC Board to decide appropriately on the matter. On 17 January 2020, the Board, citing the prevalent practice of principal waiver by nationalized banks, decided to extend an additional 30 *per cent* principal waiver amounting to ₹ 58.35 lakh to DSCPL. The revised OTS offer of ₹ 1.58 crore<sup>57</sup> *plus* expenses (instead of ₹ 2.10 crore *plus* expenses as per the scheme) was made to DSCPL (23 January 2020) which was promptly accepted (February 2020) and the dues were remitted in September 2020.

Allowing the OTS to DSCPL after a lapse of five years and with an additional 30 *per cent* principal waiver of ₹ 58.35 lakh was unfair to other borrowers who promptly availed the scheme and complied with all the conditions. Further, DSCPL was not charged interest of ₹ 0.88<sup>58</sup> crore from April 2015 to December 2019 though it was charged in the other case of Kothari Overseas P. Ltd.

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<sup>53</sup> *Vide* 'Order of Attachment' issued by the O/o The Mamlatdar of Mormugao Taluka dt. 27 November 2018

<sup>54</sup> Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act

<sup>55</sup> One plot of 330 m<sup>2</sup>, one flat 90 m<sup>2</sup> at Taleigao, Panaji and three residential flats in Mormugao

<sup>56</sup> Principal - ₹ 1.95 crore X 30 *per cent* additional waiver = ₹ 58,35,000

<sup>57</sup> Principal - ₹ 1,36,15,000 *plus* Interest - ₹ 15,25,836 *plus* Expenses - ₹ 6,69,457 = ₹ 1.58 crore

<sup>58</sup> ₹ 1.51 crore (Principal *plus* Interest) X 12.50 *per cent* X 12 months (from April 2015 to March 2016) *plus* ₹ 1.46 crore X 12.50 *per cent* X 45 months (from April 2016 to December 2019) = ₹ 0.88 crore

EDC responded (11 October 2023), stating that: (i) the additional waiver of 30 *per cent* of the principal balance was a commercial decision made to settle the loan account, (ii) interest was not to be charged during the period from 01 October 2012 till the date of communication of settlement, (iii) the settlement to be arrived at under the Special OTS Scheme was irrespective of the security available; and (iv) the litigation process was time-consuming. Government replied (July 2024) that the defaulter was continuously insisting on higher waiver like that of the nationalized banks. The responses were not correct as: (i) the deviation from established norms, allowing an exclusive principal waiver, contradicts the principles outlined in the Special OTS Scheme; (ii) the exemption from interest is applicable only when settling within validity period of 31 March 2015. In this case, the defaulter engaged in litigation for five years until 2020, negating eligibility for an interest waiver; (iii) the settlement terms of the Special OTS Scheme did not authorize any additional principal waiver; and (iv) the prolonged litigation was fully resolved with favourable outcomes in all legal forums and the defaulter received unwarranted rewards for non-compliance, evasion, and protracted delays in resolution. In summary, the extra waiver of ₹ 1.46 crore was an unwarranted favour to the defaulter DSCPL.

*EDC did not scrupulously adhere to the conditions of OTS scheme and selectively allowed higher principal waivers. The defaulters who delayed their loan settlements were benefitted with disproportionate waivers vis-à-vis the ones who promptly complied with the OTS conditions in a timely manner.*

***Recommendation 4: EDC may ensure strict adherence to the OTS scheme conditions and optimise the recoveries on defaulted loans without selectively relaxing them for defaulters.***

### **3.2.9.2 NPA and write-off cases**

The 106 loan accounts with defaults as on 31 March 2023 comprised of seven Non-Performing Assets (NPA<sup>59</sup>) and 99 written off<sup>60</sup> loan accounts. Audit observed insufficient pursuit by EDC in 16 out of 23 written-off loans. Delays were noted in concluding an OTS case, inaction despite favourable court verdicts in 10 cases, and non-filing of court cases in five instances as detailed in succeeding paragraphs:

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<sup>59</sup> Loan accounts where defaults have taken place but have not yet been written off from the books of accounts.

<sup>60</sup> Write-off cases are those where the company, recognizing the high potential of loss, writes off the dues from its books of accounts but continue to pursue the recovery with the defaulters.

**3.2.9.2(a) Lower OTS offer (by ₹ 0.98 crore) to defaulter Giovanni & Zibronni Shipping P. Ltd., and non-cancellation of OTS even after its validity period**

In July 2008, EDC Ltd. sanctioned a term loan of ₹ four crore to M/s Giovanni & Zibronni Shipping Private Limited (GZSPL) for the acquisition of a 2,200-tonne barge. Despite EDC's security norms requiring principal/collateral security of at least 150 *per cent* of the loan exposure, the actual security obtained was only ₹ 3.25 crore against the mandated ₹ six crore. GZSPL defaulted on payments from the first instalment in 2010, leading to the entire loan being recalled in November 2010. As of June 2012, EDC couldn't recover its loan due to insufficient security, a concern highlighted in the CAG report of 2012 (Para 5.3). Subsequently, the Committee on Public Undertakings in its report<sup>61</sup> pointed to the total lack of responsibility and transparency in disbursement of loan and sought to be apprised of further progress made in its recoveries by EDC. The Action Taken Note on the COPU recommendation is pending (January 2024).

Scrutiny of further progress revealed that EDC sold (2018) the barge (Principal security) for ₹ 1.35 crore and also obtained (17 July 2013) a favourable verdict in its civil miscellaneous application<sup>62</sup> filed for enforcement of personal guarantee. The enforcement application<sup>63</sup> for sale of immovable properties is ongoing (2023) in Court. Meanwhile, the defaulter applied for OTS in January 2020 and was offered a settlement by EDC for ₹ 2.85 crore<sup>64</sup> as against the prescribed settlement value of ₹ 3.83<sup>65</sup> crore. However, even though the defaulter accepted the OTS offer, the cheque of ₹ 2.85 crore issued by the defaulter on 22 August 2020 was dishonoured due to insufficient funds. EDC filed criminal cases<sup>66</sup> u/s 138 of Negotiable Instruments Act which is ongoing.

GZSPL paid only ₹ 25 lakh (February 2021) within the prescribed timeline of one year (by April 2021). EDC allowed<sup>67</sup> one final opportunity till November 2021 but still could not effect recovery from GZSPL till January 2024. Though the OTS scheme at para 7.f prescribed withdrawal

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<sup>61</sup> Nineteenth report of COPU on CAG Report 2011-12 laid on the House on 31 January 2019.

<sup>62</sup> Case No. CMA/141/2011 filed in District and Sessions Court, South Goa on 24 October 2011.

<sup>63</sup> Case No. CMA/11/2014 filed in District and Sessions Court, South Goa in 2014.

<sup>64</sup> Vide letter no. 1976 dt. 21 April 2020 for ₹ 2,85,10,821; [Outstanding principal of ₹ 2,76,63,101 *plus* other expenses of ₹ 5,49,016 *plus* interest of ₹ 2,98,704 (being 10 *per cent* of total interest of ₹ 29,87,040)] sale proceeds of barge ₹ 1.28 crore

<sup>65</sup> OTS offer - ₹ 3,82,51,643 [Outstanding principal of ₹ 2,76,63,101 *plus* other expenses of ₹ 5,49,016 *plus* interest of ₹ 1,00,39,526 (being 10 *per cent* of total interest of ₹ 10,03,95,260 as of December 2019)]

<sup>66</sup> OA 77/2022 and OA 389/2020 in JMFC Court, Panaji

<sup>67</sup> Vide letter no. 30 dt. 03 November 2021

of offer after the lapse of its validity by adjusting the amount paid against outstanding dues, EDC has neither cancelled the OTS offer nor adjusted the advance payment of ₹ 52<sup>68</sup> lakh against outstanding dues (January 2024).

EDC, in its response (November 2023) mentioned that the borrower had incurred significant losses and was granted additional time beyond November 2021 to comply and settle. However, this explanation is not acceptable as EDC had not levied the interest amount of ₹ 0.98 crore, as per the OTS scheme for the delay in settling the loan until December 2019. Non-levy of interest and keeping the OTS offer endlessly open from 2020 till date, constituted undue favours to the defaulter and were not in the financial interest of EDC.

***3.2.9.2(b) Inaction against 15 defaulters of value ₹ 50.50 crore plus interest***

In adherence to the accounting principle of conservatism, EDC had periodically written off of its loans, where the management anticipates prolonged delays in recovery due to litigation or default. Despite the write-offs, recoveries are pursued from defaulting parties till they are conclusively settled by (i) full recovery, (ii) partial recovery (like OTS) or (iii) full waivers (where there are no chances of recovery and all efforts have been exhausted). In respect of ten loan default cases [with gross disbursement of ₹ 16.71 crore (year 1987-2000) and favourable Court/Tribunal orders for pending recovery of ₹ 44.36 crore *plus* costs *plus* interest], there has been no pursuance for recovery from the defaulters (detailed in **Appendix 3.8**). In respect of five loan default cases (detailed in **Appendix 3.9**) with pending recovery of ₹ 6.14 crore *plus* interest, EDC was yet to file a case in the relevant jurisdiction or identify the personal assets of defaulter to proceed under PMRDA Act, 1986.

Audit did not find evidence of minimal efforts for recovery of written off loans such as visits to known addresses, discreet enquiries with related individuals (neighbours, customers, suppliers), hiring specialist detectives, searching electoral rolls, reporting the defaulters to Credit Information Companies (CICs) like CIBIL, *etc.*

On the above being pointed out, EDC replied (November 2023) that the loans were already written off in March 2007 and March 2008 and hence there was no progress thereafter. The reply was not correct since the loan accounts (despite being written off) were still live for recovery, were yet to be resolved conclusively (by way of recovery/OTS/waiver, *etc.*) and proper documentation of efforts were required to conclude on such loan defaults. Non-pursuance against defaulter in the relevant jurisdiction

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<sup>68</sup> ₹ 27 lakh initial payment and ₹ 25 lakh paid in February 2021

constituted undue favours shown to the defaulters. The Government further stated (July 2024) that the efforts of the Recovery Department may not have been appropriately documented. The fact remained that neither the MD nor the Board was periodically apprised of such cases to enable active oversight by the top management.

*EDC did not pursue the defaulters with written off loans by utilizing available legal remedies. The lack of an effective follow-up mechanism also adversely impacted the recovery from defaulters.*

***Recommendation 5: EDC may formulate an action plan to resolve the defaulted loan accounts conclusively through tracing of defaulters' assets and pursue decree executions.***

### **3.2.9.3 Defective reporting of defaulters' data to Credit Information Companies that adversely hampered recovery from defaulters**

The Credit Information Companies (CICs) registered with the Reserve Bank of India (RBI) under the Credit Information Companies (Regulation) Act, 2005, are mandated to carry out functions related to collecting, compiling, and providing credit information. CICs play a crucial role in the financial ecosystem by facilitating access to comprehensive credit information for lenders and other financial institutions during the credit evaluation process. All credit institutions (including EDC<sup>69</sup>) were required to report<sup>70</sup> to RBI and four<sup>71</sup> CICs periodically on their defaulters. This would prevent defaulters from accessing capital markets and obtaining new loans from any other bank or financial institution.

EDC has been consistently reporting about their loan accounts to CICs (like CIBIL) on a monthly basis in the form of electronic data files called as "Data Input Files" pertaining to seven main segments<sup>72</sup> (out of nine). Scrutiny of data furnished (more specifically for March 2023) to CICs by EDC revealed that several details of 30 (loan accounts) defaulters test-checked were either unreported or incorrectly reported as detailed below and in **Appendix 3.10**.

- (i) The relationship segment (RS) and cheque dishonour segment (CD) were completely missed out while reporting in respect of all loan

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<sup>69</sup> As defined by clause (f) of Section 2 of the CIC Act, 2005 that included all NBFCs.

<sup>70</sup> As per para 100 of RBI Master Directions, 2016 and Section 17 of CIC (Regulation) Act, 2005

<sup>71</sup> CIBIL - Credit Information Bureau India Ltd., Experian - Credit Information Company of India P. Ltd., CRIF - Highmark Credit Information Services P. Ltd. and Equifax - Credit Information Services P. Ltd.

<sup>72</sup> Borrower Segment (BS), Address Segment (AS), Relationship Segment (RS), Credit Facility Segment (CR), Guarantor Segment (GS), Security Segment (SS) and Cheque Dishonour Segment (CD)

accounts. This would have prevented the defaulters from regrouping under a different name and accessing credit.

- (ii) The guarantor segment (GS) consisting of data of guarantors (like name address, PAN, Ration card no., etc.) was not reported in 18 loan defaults out of 30 cases test-checked.
- (iii) The security segment (SS) comprising of data of the security held (like value, type, classification, date, etc.) was not reported at all though EDC held security in 14 loans out of 30.
- (iv) The credit facility segment (CR) comprising details like value, asset classification type, account status, suit filed data, etc., was incorrectly reported in 23 loans out of 30. In 21 out of 30 loans, the details of the litigation were incorrectly reported.
- (v) The address segment (AS) comprising of address related information of the borrowers was incorrectly reported in 28 loan accounts out of 30.

Complete and timely reporting of defaulters is crucial for impacting their credit history and prevents defaulters from accessing further loans and compels them to settle their dues with EDC. EDC replied (24 November 2023) that the matter will be reviewed, and all available data shall be filed with the CICs. Government further stated (July 2024) that the suggestions made in reporting shall be complied to prevent the defaulters from availing finance from other banks.

*EDC did not effectively utilise the tool of reporting complete and accurate information about the defaulters to CICs and pursue the recovery process.*

***Recommendation 6: EDC may formulate an action plan to compile and report complete and accurate information about defaulters to CICs.***

### **3.2.10 EDC's role and mandate pertaining to loan management**

The third objective of this audit was to assess whether EDC effectively discharged its role and fulfilled its mandate pertaining to loan management. Audit observed the absence of long term planning regarding the nature of business growth, capital requirements, product development, etc., and also retention of annual profits without deployment plans in the core area of MSME loans as discussed in succeeding paragraphs.

#### ***Trend of loan sanctions and disbursements in EDC***

The details of loan sanctions and disbursements for the five financial years upto 2022-23 are given below in **Table 3.12** and **Table 3.13**.

**Table 3.12: Details of loan sanctions during the five year period (2018-19 to 2022-23)**

*(₹ in crore; percentage to the total sanctions)*

Year	Loan Sanctions					Total
	Term Loans	Govt. Loans	Personal Loans	Staff Loans	CMRY	
2018-19	59.51 (38.91%)	80.00 <sup>73</sup> (52.31%)	0.10 (0.07%)	0.63 (0.41%)	12.69 (8.30%)	152.93
2019-20	88.44 (87.86%)	-	2.58 (2.56%)	0.35 (0.35%)	9.29 (9.23%)	100.66
2020-21	24.55 (70.71%)	-	5.05 (14.54%)	0.05 (0.14%)	5.07 (14.60%)	34.72
2021-22	65.97 (21.17%)	240 <sup>74</sup> (77.02%)	1.49 (0.48%)	0.40 (0.13%)	3.76 (1.21%)	311.62
2022-23	59.98 (18.60%)	200 (62.04%)	60.17 (18.66%)	0.35 (0.11%)	1.89 (0.59%)	322.39
<b>Total</b>	<b>298.45</b>	<b>520.00</b>	<b>69.39</b>	<b>1.78</b>	<b>32.70</b>	<b>922.32</b>

*(Source: Information provided by EDC)*

**Table 3.13: Details of loan disbursements during the five year period (2018-19 to 2022-23)**

*(₹ in crore; percentage to the total disbursements)*

Year	Loan Disbursements					Total
	Term Loans	Govt. Loans	Personal Loans	Staff Loans	CMRY	
2018-19	49.89 (28.61%)	113.09 (64.85%)	0.05 (0.03%)	-	11.36 (6.51%)	174.39
2019-20	50.44 (82.09%)	-	2.61 (4.24%)	-	8.39 (13.66%)	61.44
2020-21	34.84 (79.98%)	-	4.33 (9.94%)	-	4.39 (10.08%)	43.56
2021-22	35.17 (85.82%)	-	2.04 (4.98%)	-	3.77 (9.20%)	40.98
2022-23	15.55 (21.23%)	- <sup>75</sup>	54.35 (74.20%)	1.44 (1.96%)	1.92 (2.61%)	73.26
<b>Total</b>	<b>185.89</b>	<b>113.09</b>	<b>63.38</b>	<b>1.44</b>	<b>29.83</b>	<b>393.63</b>

*(Source: Information provided by EDC)*

It could be seen from the above tables that:

- The disbursement of term loans declined from ₹ 49.89 crore (2018-19) to ₹ 15.55 crore (2022-23).
- The Govt. loan sanctions and disbursements were not predictable as it depended on the Government's financial requirements.
- The percentage of personal loans sanctioned to total sanctions showed drastic increase from 0.07 *per cent* in 2018-19 to 18.66 *per cent* in 2022-23 indicating a shift towards personal loan portfolio.

<sup>73</sup> Excluding the loan sanction of ₹ one crore to the fully owned subsidiary (Goa Electronics Limited)

<sup>74</sup> Government loan of ₹ 240 crore was not availed and hence revoked by EDC in October 2023.

<sup>75</sup> Government loans of ₹ 350 crore were disbursed to the Finance Department in May-June 2023.

***Trend of loan portfolio in EDC***

The category-wise position of loans outstanding in terms of money value during the period 2018-23 was as follows in **Table 3.14**.

**Table 3.14: Details of category-wise position of loans outstanding**  
(₹ in crore)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Term Loans</b>	133.41 (15.69%)	160.60 (21.34%)	176.71 (27.39%)	179.64 (33.25%)	160.97 (34.40%)
<b>Personal Loans</b>	0.27 (0.03%)	2.56 (0.34%)	6.07 (0.94%)	6.39 (1.18%)	56.50 (12.07%)
<b>Govt. Loans</b>	686.77 (80.75%)	556.57 (73.97%)	428.52 (66.43%)	322.64 (59.72%)	225.43 (48.17%)
<b>CMRY Loans</b>	28.82 (3.39%)	31.46 (4.18%)	32.70 (5.07%)	30.56 (5.66%)	23.93 (5.11%)
<b>Staff Loans</b>	1.26 (0.15%)	1.28 (0.17%)	1.05 (0.16%)	1.05 (0.19%)	1.13 (0.24%)
<b>Total</b>	<b>850.53</b>	<b>752.47</b>	<b>645.05</b>	<b>540.28</b>	<b>467.96</b>
<b>Standard<sup>76</sup></b>	834.65	737.79	624.63	524.27	459.53
<b>Sub-standard<sup>77</sup></b>	3.15	2.92	5.20	1.37	0.34
<b>Doubtful<sup>78</sup></b>	12.44	7.25	9.85	8.85	4.79
<b>Loss<sup>79</sup> assets</b>	0.29	4.51	5.37	5.79	3.30
<b>NPA<sup>80</sup> (₹ in crore)</b>	<b>15.88</b>	<b>14.68</b>	<b>20.42</b>	<b>16.01</b>	<b>8.43</b>
<b>NPA (in percentage)</b>	<b>1.87</b>	<b>1.95</b>	<b>3.17</b>	<b>2.96</b>	<b>1.80</b>

(Source: Information provided by EDC)

As illustrated in the table above, the share of Govt. loans outstanding on the total loan book declined from 80.75 *per cent* (₹ 686.77 crore) during 2018-19 to 48.17 *per cent* (₹ 225.43 crore) during 2022-23. The outstanding term loans increased marginally from ₹ 133.41 crore in 2018-19 to ₹ 160.97 crore in 2022-23. Notably, the outstanding personal loans exhibited a significant surge at the close of each financial year throughout the audit period from ₹ 27 lakh (0.03 *per cent*) in 2018-19 to ₹ 56.50 crore (12.07 *per cent*) in 2022-23. EDC stepped up the sanction of personal loans from year 2022-23 to deploy the available funds.

**3.2.10.1 Absence of business promotion and marketing of loan products**

The core<sup>81</sup> business of EDC is to provide financial assistance to entrepreneurs (MSMEs) through various term loan schemes. However, as

<sup>76</sup> Assets that do not disclose any problems and do not carry more than normal risk.

<sup>77</sup> Asset which remained NPA for less than or equal to 12 months.

<sup>78</sup> Asset which remained sub-standard beyond 12 months.

<sup>79</sup> Loss assets are those where loss has been identified by the Company, internal or external auditor, but the amount has not been written off wholly.

<sup>80</sup> Assets in which the instalment of principal/interest remained overdue for three months or more.

<sup>81</sup> As per the 17-point Manual (a mandatory document required by Section 4(1)(b) of the Right to Information Act, 2005 detailing the organization's activities)

of 31 March 2023, the term loans were just 34.40 *per cent* out of total loan portfolio (₹ 160.97 crore out of ₹ 467.96 crore), the remaining being Government loans ₹ 225.43 crore (48.17 *per cent*), personal loans ₹ 56.50 crore (12.07 *per cent*) and CMRY loans ₹ 23.93 crore (5.11 *per cent*) & staff loans ₹ 1.13 crore (0.24 *per cent*).

1. In the backdrop of declining business from ₹ 850.53 crore in FY 2018-19 to ₹ 467.96 crore in FY 2022-23 (as of 31 March 2023), we observed that periodical 'root cause analysis' of declining loan book was not undertaken to arrest the declining trend of business.

2. EDC did not conduct any specific/targeted loan awareness campaign among its potential MSME customers (beyond routine advertising<sup>82</sup>) like holding camps in 24 Industrial Estates of GIDC in the last five years or reaching out to new plot allottees by utilizing information from Government and its agencies like GIDC<sup>83</sup>, DITC<sup>84</sup>, IPB<sup>85</sup>, etc., on vacant and undeveloped plots, plots under advanced stages of allotment, plots under development, etc. As per GIDC data, there were 603<sup>86</sup> plot related transactions from April 2017 to December 2022 that were direct targets for marketing of EDC loans. EDC had sanctioned loans to only six<sup>87</sup> borrowers out of these 603 transactions during the audit period.

3. EDC did not have the data/information of members of GSIA<sup>88</sup>, GCCI<sup>89</sup>, TTAG<sup>90</sup>, etc., to target the marketing of its loan products. Tracking the data of the industry participants/players could have been an important step for business promotion.

EDC replied (December 2023) that (i) MSME loans were not declining, (ii) the operational performance was analysed regularly, (iii) the plot allottees may not require or may not be eligible for loans; and (iv) awareness camps were held in 2021 and the efforts of the Marketing Department will be seen in the coming year. The reply has to be viewed against the fact that (i) the MSME loan book was nearly static<sup>91</sup> (between

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<sup>82</sup> Hoardings in EDC's Patto land, running radio jingles and disseminating general info through EDC's website

<sup>83</sup> Goa Industrial Development Corporation, a Statutory Corporation of the Government of Goa, that allots plots in Industrial Estates for industrial and commercial purposes.

<sup>84</sup> Directorate of Industry, Trade and Commerce

<sup>85</sup> Investment Promotion Board

<sup>86</sup> 121 fresh plot allotments of area 4.39 lakh m<sup>2</sup>, 306 plot transfers to entrepreneurs comprising 11.33 lakh m<sup>2</sup> area and also 176 transactions involving sub-lease of plots/shed of area 7.60 lakh m<sup>2</sup> to entrepreneurs for starting their own business activities.

<sup>87</sup> Five transactions of plot allotment and one transaction of plot sub-lease.

<sup>88</sup> Goa State Industries Association

<sup>89</sup> Goa Chamber of Commerce and Industry

<sup>90</sup> Travel and Tourism Association of Goa

<sup>91</sup> ₹ 133.41 crore in 2018-19; ₹ 160.60 crore in 2019-20; ₹ 176.70 crore in 2020-21 (including COVID support loan under ECS scheme); ₹ 179.64 crore in 2021-22 and ₹ 161 crore in 2022-23

133.41 crore in FY 2018-19 to ₹ 161 crore in FY 2022-23) while the overall outstanding loans were on the wane continuously (from ₹ 850.53 crore in FY 2018-19 to ₹ 467.96 crore in FY 2022-23); (ii) there were no documents to show that specific root cause analysis was done to arrest the declining trend of loans through new loan products/services; and (iii) the absence of any impact analysis reports indicated that the camp<sup>92</sup> held in 2021 was a one-off event.

The Government replied (July 2024) that industrial loans were not availed due to COVID related uncertainties and Government availed the sanctioned loan of ₹ 350 crore in FY 2023-24. The reply has to be viewed against the fact that the loan book declined even before the COVID period (from ₹ 850.53 crore in 2018-19 to ₹ 752.47 crore in 2019-20) which was an indicator of declining trend that continued till the year 2022-23.

Thus, the primary mandate of helping the MSME entrepreneurs was not furthered through effective business promotion and marketing.

### **3.2.10.2 Absence of Vision-Mission Statement**

Every organization's strategic business planning relies on its vision, mission, goals, and values. EDC did not have a Board-approved Vision-Mission Statement to guide on the path forward. The following was also observed:

**a. Absence of strategic plan:** EDC has been operating without a strategic plan for its business and has been preparing only annual budgets. The details of annual plans for the sanction of loans are outlined below in **Table 3.15**.

**Table 3.15: Details of loans sanctioned (budget v/s actual) for the period 2018-23**

Loan Sanctions	(₹ in crore)									
	FY 2018-19		FY 2019-20		FY 2020-21		FY 2021-22		FY 2022-23	
Scheme name	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Term Loans	70.00	59.51	100.00	88.44	100.00	24.55	100.00	65.97	100.00	59.98
CMRY & GTEGP <sup>93</sup> Loan	30.00	29.53	29.00	23.81	24.00	12.71	14.00	9.48	14.00	4.56
Govt. Loans	100.00	80.00 <sup>94</sup>	100.00	0.00	200.00	0.00	100.00	240.00	250.00	200.00
Personal Loans	0.00	0.10	5.00	2.58	7.50	5.05	8.00	1.49	8.00	60.17
<b>Total</b>	<b>200.00</b>	<b>169.14</b>	<b>234.00</b>	<b>114.83</b>	<b>331.50</b>	<b>42.31</b>	<b>222.00</b>	<b>316.94</b>	<b>372.00</b>	<b>324.71</b>

(Source: Information provided by EDC)

It is evident from the table above that the target for the sanction of term loans remained static at ₹ 100 crore from 2019-20 to 2022-23 and was unachieved in four years. In contrast, the target for the sanction of personal loans of ₹ eight crore in 2022-23, was surpassed with a significant growth

<sup>92</sup> One camp in 22 Industrial Estates between January and May 2021

<sup>93</sup> Including the Government component of loan of CMRY and GTEGP

<sup>94</sup> Excluding the loan sanction of ₹ 1 crore to the fully owned subsidiary (Goa Electronics Limited)

of 3,938 *per cent* (from ₹ 1.49 crore in 2021-22). The absence of a broad directional shift from term loans to personal loans in the budgets/targets clearly indicated a divergence between the execution *vis-a-vis* the planning of EDC.

**b. Absence of dividend distribution policy:** EDC lacked a dividend distribution policy to guide the top management on retention/distribution of profits. Such a policy would typically depend on the strategic business plan.

The financial performance of EDC and its dividend payments are given below in **Table 3.16**.

**Table 3.16: Details of EDC's financial performance and dividend paid during FY 2018-23**

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Share Capital <sup>95</sup> (face value ₹ 100) per share)	100.92	100.92	100.92	100.92	100.92
Reserves & Surplus (₹ in crore)	426.76	452.10	522.48	591.80	644.05
Total Equity (₹ in crore)	527.68	553.02	623.40	692.72	744.97
Net profit (₹ in crore)	36.24	38.13	66.69	52.47	61.07
Return on Equity (Profit/Equity)	6.87%	6.89%	10.70%	7.57%	8.20%
Earnings per Share (in ₹)	35.91	37.78	66.08	52.00	60.51
Dividend per share (in ₹)	1.00	1.00	1.00	1.00	1.00
Dividend yield [(Dividend/face value per share (₹ 100))]	1.00%	1.00%	1.00%	1.00%	1.00%
Dividend payout ratio (Dividend/Profit)	2.78%	2.65%	1.51%	1.92%	1.65%

(Source: *Financial Statements of EDC for five years*)

EDC's dividend distribution ranged from 1.51 *per cent* to 2.78 *per cent* of annual profits indicating a dividend yield of one *per cent* (@ ₹ one per share) which was not remunerative for shareholders. Though there was no growth/expansion plan in the medium to long term and consequently no need for additional capital, the annual profits were almost entirely retained without distributing them as dividend to shareholders (Government). The prioritization of profit retention (despite the absence of any plans on its deployment) over providing fair remuneration to shareholders' capital indicated the risks associated with the absence of a dividend policy and business strategy for the medium to long term.

EDC replied (January 2024) that (i) though its first preference was MSME lending, the lack of credible demand for MSME loans resulted in lending to Government, (ii) it had been making consistent profits and (iii) personal loans were disbursed to deploy surplus cash from 2019-20.

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<sup>95</sup> Face value ₹ 100 per equity share

The reply was silent as to why the annual profits were retained without its distribution as dividend despite absence of any business expansion plan and need for more capital.

The reply has to be viewed against the fact that (i) in the absence of demand for its MSME loans, the distributable surplus of ₹ 387.57 crore<sup>96</sup> was deployed in non-core areas like personal loans, bank deposits, etc., (ii) the claim of consistent profits of EDC was only due to the direct support of the Government (two-third of loans being to PSUs/Government and balance private sector term loans being heavily subsidized<sup>97</sup> by the Government). Also, a major part of the reserves of EDC was out of leasing of Government land in Patto which yielded ₹ 231.18<sup>98</sup> crore from April 2005 till March 2023 (translating to ₹ 560 crore NPV at eight *per cent* discounting); and (iii) personal loan sanctions surpassing the term loan sanctions (core mandate of EDC) was never planned in budgets/targets indicating lack of control. The Government further stated (July 2024) that the audit recommendation would be reviewed for appropriate action.

*Absence of corporate business planning with a vision to drive the business direction resulted in a continuous decline in the loan book position. The annual profits were retained without any realistic plan for deployment to further the core mandate of lending to MSMEs.*

***Recommendation 7: EDC may formulate a strategic business plan including a Vision-Mission document to steer the direction of business as per the mandate.***

#### **Department of Industries**

#### **3.3 Idle Expenditure on acquisition of land acquired for expansion of industrial estate**

**Acquisition of land disregarding the request of the indenting department to de-notify the land acquisition in view of it not being financially feasible resulted in idle expenditure for an amount of ₹ 70.45 crore.**

The Directorate of Industries, Trade and Commerce (DITC) is concerned with the promotion, development and regulation of industries in the State of Goa. The Goa Industrial Development Corporation (GIDC) which comes under the administrative purview of DITC establishes and manages industrial estates/areas and makes them available for setting up industrial units in the State. This initiative significantly contributes to the economic

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<sup>96</sup> General Reserve of ₹ 0.14 crore and Retained earnings of ₹ 387.43 crore for the year ended 2022-23

<sup>97</sup> Between two to nine *per cent* of annual interest subsidy based on eligibility criteria.

<sup>98</sup> Source: Financial Statements of EDC from 2005 compiled by Audit and shared with EDC (11 January 2024).

growth and employment opportunities within the State. Department of Industries, Government of Goa (GoG) is the administrative department of the DITC and GIDC.

The GIDC forwarded a proposal (May 2013) to DITC seeking to acquire a parcel of land measuring 1,87,825 sq. mtrs. for the Phase-II expansion of its current Industrial Estate located at Shiroda Village<sup>99</sup>, Ponda Taluka as the existing area was not adequate to meet the demands of the entrepreneurs. DITC, placed an indent with the Industries Department for acquisition of land admeasuring 1,87,825 sq. mtrs. After approving the proposal (12 June 2013) and obtaining no objection certificate (October 2013) from Town and Country Planning Department, the Industries Department requested (October 2013) the Collector, North Goa District to acquire the requisitioned land. On acquisition of the said parcel of land, the Land Acquisition Officer (LAO) declared (October 2015) the land acquisition award granting a compensation amount of ₹ 70.45 crore payable to the land owners<sup>100</sup>.

However, GIDC raised a red-flag (September 2016) with the Government regarding the high rate of compensation fixed by the LAO stating that it would result in a high premium for the land and would likely be beyond the reach of the entrepreneurs. Therefore, based on the request of GIDC, the DITC sought (September 2016) Government approval to drop the land acquisition proposal. The Industries Department accorded approval (December 2016) to invoke Section 48<sup>101</sup> of Land Acquisition Act, 1894 for the said proposal. Further, the proposal to de-notify the acquired land was placed before the Cabinet Meeting of the Council of Ministers (July 2017), however, the proposal was withdrawn by the Revenue Department. Accordingly, the Revenue Department requested (October 2017) the Industries Department to analyze the financial implications of the proposal and costs/expenditure incurred during acquisition process.

DITC informed (November 2017) the Industries Department citing the financial analysis made by the GIDC stating that in case the land was acquired at the award price, the premium amount to be charged for the developed plot would be about ₹ 10,530 per sq. mtrs., approximately five times of the prevailing highest premium of plot for sale which was ₹ 2,310 per sq. mtrs. (at Verna Industrial Estate) and as such there would be no takers for the plots at Shiroda Industrial Estate (Phase-II). Though the GIDC insisted on dropping the acquisition proposal, the Government, however, accorded approval (February 2018) for acquisition of the said land at the awarded compensation of ₹ 70.45 crore and the possession of

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<sup>99</sup> Survey No. 965, 974, 975, 979, 980 & 987

<sup>100</sup> M/s Vedant Real Estate Developers had an area of 1,79,939.61 sq. mtrs. Other 11 parties had combined total area of 7,885.39 sq. mtrs.

<sup>101</sup> The Government shall be at liberty to withdraw from the acquisition of any land of which possession has not been taken.

the acquired land was taken over by the GIDC in August 2018. The GIDC sought directions (August 2018) from the Government on development/utilization of the said land, but the Govt. did not provide any such (January 2025) information.

In this regard, Audit observed (March 2023) that the proposal initiated by the GIDC (May 2013) for acquisition of additional land at Shiroda Industrial Estate was to cater to the demand of entrepreneurs for industrial land. However, despite such prevailing demand, the GIDC had requested the Government for dropping of the proposal in view of the high compensation awarded by the LAO. Though DITC made efforts to withdraw the land acquisition proposal, the Government, after more than two years of declaration of the Award, acquired the land and the same was handed over (July 2018) to GIDC for development. GIDC after taking possession (August 2018) could not develop the land even after about six years of taking over the possession. Consequently, no new industries have been established and no employment opportunities were generated, despite an investment of ₹ 70.45 crore.

The DITC, while confirming (January 2024) the above facts stated that a request (October 2023) from GIDC seeking directions/instructions for the utilization of land had been forwarded (November 2023) to the Department of Industries.

Thus, the acquisition of land for industrial purposes with an exorbitant higher premium of ₹ 70.45 crore, despite the reluctance expressed by both the GIDC and the DITC resulted in the idling of the land for the last six years defeating the purpose of land acquisitions.

### **3.4 Irregular diversion of funds from Centrally Sponsored Scheme**

**The Goa Industrial Development Corporation (GIDC) irregularly retained ₹ 6.58 crore of funds released for implementation of Assistance to State for Development of Export Infrastructure and Allied Activities and parked the funds in Fixed Deposits (FDs); the Utilization Certificates (UCs) submitted by the Corporation for ₹ 6.12 crore were misleading.**

Assistance to State for Development of Export Infrastructure and Allied Activities (ASIDE), a Centrally Sponsored Scheme was launched in March 2002 by the Department of Commerce (DoC), Government of India (GoI) to provide assistance to states for creating infrastructure for the development and growth of exports. A basket of 500-600 projects based on focused studies of the requirement of the exports/imports were to form the basic scope of the scheme. Projects outside the list of this basket of projects required mandatory concurrence of DoC, to ascertain its relevance for export. In the case of projects outside the list of the basket, the ASIDE

contribution would be limited to 50 *per cent* and the rest to be borne by the State Government. A State Level Export Promotion Committee (SLEPC)<sup>102</sup> was to scrutinize and approve specific projects and oversee the implementation of the scheme.

The unutilized scheme funds of the preceding period were to be kept separately and taken into account while releasing funds for the ensuing period. In the event of the grantee failing to comply with the terms and conditions of the grant sanction order, the whole or part of the grant was liable to be refunded along with the interest @ 10 *per cent* per annum thereon. Interest earned on scheme funds was not to be utilized for funding projects under capital head without the approval of Ministry of Finance, GoI.

Goa Industrial Development Corporation (the Corporation), being the nodal agency in the State for the Scheme, received grants aggregating ₹ 63.38 crore during the period from 2002-03 to 2013-14. Out of this, the Corporation utilized an amount of ₹ 50.44 crore (up to 2013-14) for executing various works while retaining the balance amount of ₹ 12.94 crore (including ₹ 6.12 crore received in the year 2013-14). Subsequently, in 2015-16 the Scheme was delinked from GoI's budgetary support. The Corporation did not take up any approved ASIDE project since the last release of the grant in 2013-14 and was, thus liable to refund the unutilized grant to the GoI. Instead of refunding the same, the Corporation, parked the unutilized grant of ₹ 12.94 crore in fixed deposit accounts and, as of January 2023, a sum of ₹ 32.28 crore (including interest earned of ₹ 19.34 crore) was available with it.

Following repeated reminders from the GoI for submission of UCs, the Corporation submitted the UCs on 02 January 2023. In the UCs, the Corporation showed two of its own works<sup>103</sup> executed for a sum of ₹ 6.36 crore during the period 2017-19 as works executed under ASIDE scheme. The unspent balance of previous years and the balance remaining at the end of the year were shown as Nil, although an unspent balance of ₹ 6.82 crore of previous period and interest thereon was available with the Corporation. Later, the Corporation foreclosed (January 2023) fixed

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<sup>102</sup> As per the guidelines for ASIDE, there shall be a State Level Export Promotion Committee (SLEPC) headed by the Chief Secretary of the State and consisting of the Secretaries of concerned Departments at the State level, and a representative of the State cell of the Department of Commerce (DoC) and the Joint Director General of Foreign Trade posted in the State/region and the Development Commissioners of the Special Economic Zone/Export Processing Zone in the State as Members.

<sup>103</sup> (i) Construction of 800 m<sup>3</sup> raw & filter water reservoir; and (ii) raw water distribution network at Verna Industrial Estate.

deposits to the extent of ₹ 26.91 crore<sup>104</sup> and utilized an amount of ₹ 16.91<sup>105</sup> crore to repay a loan to Punjab National Bank.

As per the guidelines for ASIDE scheme, the State could take up any work/project only with the prior approval of the SLEPC and where the projects did not fall within the basket of projects listed, approval of DoC, GoI was also needed. However, the two works for which the UCs were submitted in January 2023, had been executed by the Corporation on its own during 2017-19. These works neither had prior nor *post facto* approval of the SLEPC and DoC and were incorrectly shown to have been executed under ASIDE scheme. Thus, the UCs submitted by the Corporation were misleading. The Corporation also misled the GoI by stating that there was no unspent balance of previous years, even though an amount of ₹ 6.82 crore pertaining to previous years was available (January, 2023) with it.

Thus, instead of utilizing Scheme funds for approved projects, the Corporation irregularly diverted funds, parked in fixed deposits and avoided the refund of the amount and interest earned thereon to GoI. The ASIDE funds (including interest earned) so diverted amounted to ₹ 32.28<sup>106</sup> crore (kept in the FDs) as of January 2023.

On being pointed out by Audit (January, 2023) the Corporation refunded (March 2024) ₹ 26.95 crore (unspent balance of ₹ 6.58 crore as of 2013-14 and interest earned ₹ 20.37 crore) to DoC, GoI. Further, the Corporation replied (22 March, 2024) that approval of SLEPC was not obtained at the time of execution of works as the Committee ceased to exist from the year in which the scheme was discontinued and therefore, the matter was submitted (December, 2022) to the Government of Goa (GoG) to regularize the procedural lapse and the same was approved (December, 2022) by the GoG. Accordingly, the UC for ₹ 6.12 crore was submitted for the funds received in the year 2013-14 which was accepted by the DoC, GoI.

The reply was not tenable in view of the fact that the works/projects claimed to have been executed under ASIDE required the approval of SLEPC which was not the case and the UCs submitted to GoI were misleading.

Thus, the Corporation irregularly retained ₹ 6.58 crore of funds released for implementation of a CSS and parked the same in FDs and incorrectly submitted to GoI that there were no unspent balances. It was only at the

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<sup>104</sup> 16 out of 20 FDs (₹ 32.21 crore = Total Amount ₹ 32.28 crore – bank account for ASIDE scheme ₹ 0.07 crore) were foreclosed by the Corporation.

<sup>105</sup> Loan availed by the Corporation for refunding the dues of SEZ parties on cancellation of their leases.

<sup>106</sup> Previous balance of ₹ 6.82 crore, ₹ 6.12 crore received in 2013-14 and interest earned as of January 2023-₹ 19.34 crore.

instance of audit, that the amount of ₹ 26.95 crore (including interest of ₹ 20.37 crore) was refunded to GoI. The UCs submitted by the Corporation for ₹ 6.12 crore to GoI were misleading.

### **Electricity Department**

#### **3.5 Non-availing of Input Tax credits (ITC) and non-payment of Goods and Services Tax (GST) by Goa Electricity Department**

**Failure to charge Goods and Services Tax by the Electricity Department on the meter rent charged to consumers during the period 01/07/2017 to 31/03/2023 and non-availing of ITC on purchase of electricity meters resulted in non-collection/non-payment of GST (₹ 10.55 crore) and non-availing of ITC (₹ 10.63 crore).**

Goa Electricity Department (Department) is the deemed licensee for power distribution in the State of Goa. Clause 6.11 of Joint Electricity Regulatory Commission for the State of Goa and UTs (Electricity Supply Code) Regulations, 2018, empowered the Department to charge meter rent from consumers, at the rate approved by the Joint Electricity Regulatory Commission, if the meter is supplied by the Department at its own cost. In case of connections where the meter has been procured by the consumer, no meter cost and rent shall be collected from the consumer.

As per Section 9(1) of the Goa Goods and Services Tax (GGST) Act, 2017 GST shall be levied on all intra-state supplies of goods or services or both. The State Government exempted supply of electrical energy<sup>107</sup> and service by way of transmission and distribution<sup>108</sup> of electricity from GST under Section 11 of the GGST Act. However, other services<sup>109</sup> provided to consumers are taxable under GST<sup>110</sup>. Accordingly, the Department is liable to charge GST on the value of other services, including meter rent billed to the consumers.

Further, Section 16 of the GGST Act, 2017 stipulates that “every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in Section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of

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<sup>107</sup> Sl. No. 104 of Schedule of goods exempted *vide* Goa Government Notification No.38/1/2017- Fin(R&C) (12/2017-Rate) dated 30 June 2017

<sup>108</sup> Sl. No. 25 of Schedule of services exempted *vide* Goa Government Notification 38/1/2017-Fin(R&C) (12/2017-Rate) dated 30 June 2017.

<sup>109</sup> Application fee for releasing connection of electricity, Rental charges against metering equipment, Testing fee for meters/transformers, capacitors, etc., Labour charges from customers for shifting of meters or service lines and Charges for duplicate bills.

<sup>110</sup> Goa Government Circular No. 02/2018-19-GST dated 27 April 2018

his business and the said amount shall be credited to the electronic credit ledger of such person”.

Audit observed that the Department had charged meter rent of ₹ 58.60 crore from its consumers during July 2017 to March 2023. However, GST @ of 18 *per cent* amounting to ₹ 10.55 crore was not charged on meter rent despite meter rent being a taxable service. The GST collected on such meter rent would have enabled the Department to avail ITC on the GST paid at the time of procurement of meters. The Department had paid GST amounting to ₹ 10.63 crore on purchase of meters during the above period.

Thus, non-collection of GST of ₹ 10.55 crore on meter rent from consumers resulted in non-payment of GST of ₹ 10.55 crore and non-availing of ITC on meter purchase resulted in loss of ₹ 10.63 crore to the Department.

The observation was issued to the Secretary (Power), Government of Goa with a copy sent to the Commissioner of State Taxes (CST), Panaji in April 2023 as the matter pertained to GST. Reminders have been issued to the Secretary (Power) in June and October 2023, but reply was awaited (January 2025). However, CST Panaji replied (August 2023) that as per notification No.38/1/2017-Fin(R&C) (12/2017-Rate) dated 30 June 2017, the services provided by the State Government are exempted from GST barring few specified services and services provided by the Department to unregistered entity who is not liable to pay GST is also exempted from GST. Keeping in view, Goa Electricity Department is not liable to pay GST @ 18 *per cent* on services provided.

Reply of Commissioner of State Tax is not tenable due to the following reasons:

Goa Electricity Department is a deemed licensee for distribution of electricity in the State as per Section 14 of Electricity Act 2003. Goa Electricity Department, being a deemed licensee, has been paying annual license fee in compliance to regulation 68 of Joint Electricity Regulatory Commission for the State of Goa and Union Territories (Conduct of Business) Regulations 2009. The annual license fee paid for the year 2022-23 was ₹ 3.16 crore.

In view of above-mentioned provisions, it is evident that the services of meter rent provided by the Goa Electricity Department is not a service provided by the Government, but the services provided in the capacity of a distribution licensee.

Also, in view of the clarification issued by Goa Government vide Circular No. 02/2018-2019-GST dated 27 April 2018, rental charges against

metering equipment (meter rent) are taxable services and GST on meter rent should have been charged which was not the case.

## Finance Department

### Goa State Infrastructure Development Corporation

#### 3.6 Additional expenditure

**Appointment of an ineligible consultant, deficient project planning, changes in project scope and cost after the contract award and failure to provide hindrance-free site to the contractor by GSIDC resulted in inordinate delay in completion of the work and additional expenditure of ₹ 44.39 lakh.**

Rules 177 to 196 of General Financial Rules (GFR), 2017 stipulate the process of identification, shortlisting and selection of consultants and outsourcing of services. Rule 183 of GFR read with Para 5.2 and 6.2 of Manual for Procurement of Consultancy and Other Services, 2017 stipulate that for consultancy services, the procuring entity should select consultants based on their past experience of handling similar types of projects, strength of their manpower and the financial strength of the firm. Further, as per Section 15.1(2) of CPWD Works Manual, 2014, availability of hindrance-free site should be ensured before the approval of Notice Inviting Tender (NIT).

The Goa State Infrastructure Development Corporation (GSIDC) was incorporated (2001) as a ‘Special Purpose Vehicle’ for speedy implementation of all the infrastructural projects envisaged by the departments of Government of Goa. The Directorate of Health Services (DHS) submitted (August 2012) a proposal to GSIDC for construction/upgradation of Community Health Centre (CHC), Cacora. Further, GSIDC was requested (September 2012) to conduct inspection of hospital premises of CHC, Cacora to assess the scope of the work, as the repairs of the premises might not be sufficient. The GSIDC, instead of conducting an inspection for assessing the actual scope of the work, called Expression of Interest (EoI) from empaneled consultants<sup>111</sup> for the upgradation of CHC, Cacora at an estimated cost of ₹ eight crore and appointed (March 2013) a ‘D’<sup>112</sup> class consultant<sup>113</sup>. The scope of work for the consultancy services included preparation of detailed structural designs and drawings and detailed estimates based on adequate site data.

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<sup>111</sup> Consultants are empaneled in GSIDC for building works in A, B, C and D classes *i.e.*, Class ‘A’ for works costing above ₹ 150 crore, Class ‘B’ for works costing above ₹ 50 crore and upto ₹ 150 crore, Class ‘C’ for works costing above ₹ 10 crore and upto ₹ 50 Crore, Class ‘D’ for works upto ₹ 10 Crore.

<sup>112</sup> Minimum average annualized financial turnover of ₹ 25.00 lakh for the various classes

<sup>113</sup> M/s Saolapurkar and Associates

Accordingly, the GSIDC instructed (August 2013) the Consultant to carry out inspection of the site and prepare detailed drawings and estimates, taking into account the actual requirement of CHC, Cacora as per the request of the DHS. After carrying out the inspection of the site, the scope of work was enhanced from repair to construction of new hospital (including residential quarters) and modified drawings were submitted by the Consultant (November 2013) to GSIDC. As a result, the estimated cost of work increased to ₹ 29.71 crore from ₹ 8 crore. Subsequently, the GSIDC invited tender for the work (February 2014) at an estimated cost of ₹ 29.71 crore and awarded (September 2014) the work to the lowest bidder<sup>114</sup> at a cost of ₹ 35.70 crore after negotiation<sup>115</sup>. While the stipulated date of commencement and completion of works was 05 November 2014 and 04 May 2016 respectively, the works were completed only in May 2020 at a cost of ₹ 41.11 crore (excluding GST).

Audit scrutiny of records (09 February 2023) related to the project revealed the following:

- The GSIDC, despite being aware that the scope of the work would not be limited to repair of the hospital, failed to carry out due diligence<sup>116</sup> to ascertain whether new buildings would need to be constructed and accordingly, engagement of a qualified consultant ('C' class consultant) meeting the eligibility criteria was to be ensured. Instead, GSIDC appointed an ineligible consultant ('D' class), not qualified to take up projects exceeding ₹ 10 crore, for preparing detailed drawings and cost estimates for a project valued at ₹ 29.71 crore. This oversight resulted in inaccuracies in project estimation<sup>117</sup> which were highlighted<sup>118</sup> by the Technical Advisory Committee<sup>119</sup> (TAC) of the GSIDC. The TAC also recommended imposing penalties amounting to 50 *per cent* of the consultancy fee for inaccurately estimated, underestimated, or omitted items of works on the Consultant.
- Audit scrutiny of minutes of the TAC meeting (July 2020) revealed that despite the requirement stipulated in the CPWD manual for the GSIDC to provide a hindrance-free site to the contractor, the obligation was not fulfilled. The contractor faced numerous hindrances<sup>120</sup> on the

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<sup>114</sup> M/s Venkata Rao Infra Projects Pvt. Ltd.

<sup>115</sup> Bidder offered a rebate of 0.25% on the quoted amount (₹ 35.79 crore).

<sup>116</sup> Site inspection and assessment of actual scope of work

<sup>117</sup> Extra items for ₹ 0.49 crore, deviated items for ₹ 7.52 crore and substituted items of ₹ 1.17 crore

<sup>118</sup> TAC meetings (January 2018, November 2018, November 2019, July 2020)

<sup>119</sup> The TAC looks after the technical aspects of the projects and inspects for any violation of the terms and condition of the contract.

<sup>120</sup> Cutting of existing trees, shifting of existing line of water supply, electrical poles, vacating of staff quarters, delay in shifting utilities, vacating staff (353 days), delay due to working in phases, though it was not envisaged in contract agreement (840 days), delay in issue of revised foundation drawing of Part C of Phase II (117 Days), delay due to boundary dispute (429 days)

site which adversely affected the progress of the work. Consequently, though the work commenced on time, the work was completed in May 2020 after a delay of four years from the stipulated date of completion (May 2016). Since the aforesaid hindrances were attributable to GSIDC's failure to provide hindrance-free site to the contractor and the Consultant's faulty estimation of the work, the GSIDC had to grant (07 July 2020) an extension of 1,453 days to the contractor without levy of liquidated damages. Further, due to non-provision of some essential items of work such as basement parking, sloping structural roof in place of flat roof, temporary shifting of the hospital to the new building, *etc.*, in the original estimates by the Consultant, the scope of work got expanded by their inclusion at a later stage, which led to the cost of work increasing from ₹ 35.70 crore to ₹ 41.11 crore (excluding GST).

- As per the terms of the EoI, in the event of the work not being completed within the stipulated time, the Consultant will receive additional compensation<sup>121</sup> for the extended consultancy period. Since the work was not completed within the stipulated time (04 May 2016), the GSIDC disbursed an extra amount of ₹ 44.38<sup>122</sup> lakh to cover the extended period of 45 months and 2 days for the project consultancy. This expenditure could have been avoided through better project planning and execution of pre-tender activities.

On this being pointed out, the Managing Director (MD) (GSIDC) accepted (June 2023) the fact that the Consultant had been chosen for projects valued below ₹ 10 crore, based on the initial estimation by GSIDC. However, MD further stated that terminating the services of the Consultant mid-way after getting most of complexities sorted was not practically viable for the reason that it would only have added to further delays in addition to the time already lost. The MD, however, accepted that pre-tendering activities *i.e.*, soil investigation, providing hindrance-free sites, were not carried out and that the work was carried out in phases which was not initially planned and thus, were not included in the agreement resulting in further delays. The MD further stated that inordinate delay in completion of works, increase in project scope and cost is not attributable only to the Consultant but also to site conditions and need for parking area as well as protecting the building against rainwater leakages in near future.

The reply of GSIDC regarding the appointment of the Consultant was not acceptable, as it was their responsibility to appoint a qualified Consultant who could help deliver the project as per the requirements of the client department in a timely, economical and efficient manner. Continuing with

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<sup>121</sup> ₹ 83,477 per month

<sup>122</sup> ₹ 37.61 lakh *plus 18 per cent GST*

the ineligible Consultant on the pretext of avoiding delays is not justified, considering the delay of nearly four years occurred in the project completion. Further, as per Section 15.1(2) of CPWD Works Manual 2014, the GSIDC should have approved Notice Inviting Tender(NIT) after ensuring hindrance-free site to ensure timely completion of the project.

Thus, lack of due diligence on the part of GSIDC in assessing the actual requirement of works led to the selection of a Consultant who did not possess the requisite qualification, which in turn caused faulty works estimation. Poor planning and project preparation led to significant changes in the scope of works subsequently. These factors, along with GSIDC's failure to provide hindrance-free site to the Contractor before floating the NIT resulted in inordinate delay in completion of the works, increase in the project scope and expenditure of ₹ 5.41 crore<sup>123</sup> over the tendered cost (₹ 35.70 crore) and additional expenditure of ₹ 44.39 lakh made to the Consultant.



**Panaji**  
**The 10 October 2025**

**(ETI SHUKLA)**  
**Accountant General**

*Countersigned*



**New Delhi**  
**The 16 October 2025**

**(K. SANJAY MURTHY)**  
**Comptroller and Auditor General**  
**of India**

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<sup>123</sup> ₹ 41.11 - ₹ 35.70 = ₹ 5.41 crore