CHAPTER III

3 Reviews relating to Statutory corporations

WEST BENGAL STATE ELECTRICITY BOARD

3.1 IMPLEMENTATION OF THE ACCELERATED POWER DEVELOPMENT AND REFORMS PROGRAMME

Highlights

The implementation of the Accelerated Power Development and Reforms Programme had not received the required attention as there were delays in taking up the execution of works, slippages in completion of works, failure to utilise the completed works and deficient monitoring over the ongoing works. Consequently, the objective of reducing aggregated technical & commercial losses did not fructify and the Board was deprived of the anticipated savings in energy of Rs 44.86 crore for 130.55 Mkwh.

(Paragraphs 3.1.24 – 3.1.35 & 3.1.40)

The West Bengal State Electricity Board (Board) utilised incentive grants of Rs 133 crore to pay interest on loans instead of utilising the funds for improvements in the power sector. Moreover, the Board did not follow-up with the Government of India for recovery of incentive of Rs 527.01 crore.

(Paragraph 3.1.14)

The Board amended the contractual terms, to advance extra funds of Rs 7.11 crore to the contractors, but the progress of the works did not speed up. Further, defective evaluation of bids by the Board led to giving of undue benefit of Rs 3.98 crore to contractors.

(Paragraphs 3.1.18 & 3.1.19)

Introduction

3.1.1 To accelerate power sector reforms, Government of India (GOI) approved (February 2001) the Accelerated Power Development Programme (APDP) and renamed it in 2002-03 as the Accelerated Power Development and Reform Programme (APDRP). The Ministry of Power, GOI and the Department of Power, Government of West Bengal (GOWB), had signed (May 2001) a Memorandum of Understanding (MOU) for reforming the

State's power sector to enable West Bengal State Electricity Board (Board) to achieve break-even level by March 2003 and to earn positive return thereafter. Under the MOU, GOI would provide 50 *per cent* of the requisite funds under Accelerated Power Development Programme (APDP), equally as grant and loan towards modernisation/ renovation of thermal and hydroelectric units, upgradation of transmission, sub-transmission and distribution networks as well as arranging funds through Power Finance Corporation Limited (PFC), Rural Electrification Corporation Limited (REC) and other financial institutions (FIs).

3.1.2 The main objectives of APDRP are to reduce aggregate technical & commercial (ATC) losses, bring about commercial viability in the power sector, reduce outages and interruptions as well as increase customer satisfaction. To achieve these goals, GOI would provide additional Central assistance[1] for strengthening and upgradation of sub-transmission networks. Besides, GOI would pay as grant, an incentive equal to the actual reduction in cash losses, through GOWB. GOI entered (July 2002) into a Memorandum of Agreement (MOA) with the Board for implementation of projects under APDRP.

3.1.3 Between August 2002 and April 2005, GOI had sanctioned 20 projects (**Annexure-22**) in four[2] phases at an aggregate estimated cost of Rs 441.85 crore. The Board took up 18 projects and had incurred an expenditure of Rs 236.63 crore till March 2006. Two projects (estimated cost : Rs 27.58 crore) were yet to be taken up.

3.1.4 In terms of the MOA, the Board was required to constitute a three[3] member State-level Distribution Reforms Committee (SDRC) by October 2002, to review **(a)** progress of project implementation, **(b)** compliance with MOU/ MOA conditions as well as **(c)** performance against targets and benchmarks, at quarterly intervals. The SDRC was constituted in December 2002.

The Board stated (June 2006) that an APDRP cell under the Chairmanship of the Chief Engineer (Distribution), assisted by a Deputy Chief Engineer as Nodal Officer was set up to look after the implementation of the projects and to examine different activities relating to these projects. Further, to evaluate the technical and commercial aspects of the bidding process for APDRP projects, the Board also constituted (August 2003) an eight-member[4] Tender Evaluation Committee.

3.1.5 The Superintending Engineer (SE) in charge of each Circle is the nodal officer for execution of APDRP in the Circle. According to the MOA, for planning of APDRP works, the Distribution Planning & Engineering Wing

[1] 25 *per cent* of the project cost as grant and 25 *per cent* as loan for non-special category states
[2] August 2002, June 2003, December 2003 and April 2005
[3] One representative each of the Government of West Bengal & POWERGRID and the Board's Chairman
[4] Member (Distribution) as Chairman, Member (F&A), Chief Engineer (Distribution), Additional General Managers (F&A) – Corporate & Distribution, Deputy Chief Engineer (Distribution – Planning & Engineering)and two Superintending Engineers

(HQ) was to be consulted. The SEs are to monitor and review achievement of technical and commercial benchmarks on a monthly basis, with the assistance of Advisors-cum-Consultants[5] (AcCs). The records of reviews along with the reasons for shortfall and action proposed to overcome them were to be forwarded to GOI.

3.1.6 Two reviews on ‘Power sector reforms – Implementation of the terms of the MOU’ and ‘Procurement, performance & repair of energy meters’ were included in the Reports of the Comptroller and Auditor General of India for the years ended 31 March 2002 and 2003 (Commercial), Government of West Bengal respectively. The Committee on Public Undertakings had not selected the reviews for discussion.

Scope of Audit

3.1.7 The present performance audit, conducted during June to September 2006, to evaluate the implementation of APDRP during 2001 to 2006, covers five[6] out of twenty projects selected using Simple Random Sampling without Replacement (SRSWOR) technique, as well as Offices of the Chief Engineers - Distribution Headquarters and APDRP. The estimated cost of the selected projects is Rs 113.40 crore against which the Board had incurred expenditure of Rs 97.25 crore till March 2006.

Audit objectives

3.1.8 The performance audit of APDRP was carried out to assess whether -

- the projects were carefully designed with adequate planning and were efficiently implemented;
- the funding requirements were realistically assessed, the means for providing the same were clearly identified and the funds were sanctioned and released in time by GOWB and the Board;
- there was an effective monitoring mechanism at the Board level;
- available funds were used efficiently, economically and effectively;
- the aggregate technical and commercial (ATC) losses were reduced in accordance with the benchmarks and targets specified in the MOU and MOA;
- the tendering and evaluation processes were effective and transparent; and

[5] National Productivity Council for three Circles viz. Howrah, Bidhannagar & South 24-Parganas; and Metallurgical Consultancy India Limited (Mecon) for eight towns
[6] Howrah and Bidhannagar Circles; Krishnagar, Nabadwip and Jalpaiguri Towns implemented by the Superintending Engineers (SEs) – Howrah, Bidhannagar, Nadia & Jalpaiguri Circles and Divisional Engineers (DEs) – Uluberia, Bidhannagar – II, Krishnagar & Jalpaiguri Divisions

- the loss reduction and increase in revenue realisation were as per the targets specified in the detailed project reports (DPRs).

Audit criteria

3.1.9 The implementation of APDRP was assessed with reference to -

(i) the benchmarks specified in the MOU/ MOA;

(ii) the utilisation of funds received from GOI and FIs;

(iii) the identification of projects and their execution schedule;

(iv) the reports/ returns generated with reference to implementation, cost and time overrun as well as periodic remedial action prescribed.

Audit methodology

3.1.10 Audit adopted a mix of the following methodologies :

- examination of the guidelines issued by the MOP in February 2001 and June 2003;
- review of proposals drawn up for submission to GOI and detailed project reports;
- scrutiny of records relating to project execution, procurement and receipt of funds and expenditure;
- examination of Board minutes and agenda, progress reports and returns; and
- discussion with the management.

Audit findings

The audit findings were reported to the Government/ Board in August 2006 and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 20 September 2006, where the Government was represented by the Special Secretary, Department of Power, Government of West Bengal and the Board was represented by its' Chairman. The review was finalised after considering the views of the Government/ Board.

The audit findings are discussed in the subsequent paragraphs.

Project planning

3.1.11 In the first phase, GOI had appointed (August 2001) National Productivity Council (NPC) as Advisor-cum-Consultant (AcC) for three Circles *i.e.* Bidhannagar, Howrah and South 24-Parganas for a fee of Rs 5.73 crore, to be borne by the Board. NPC was required to undertake studies for improving and strengthening the system. NPC submitted the detailed project reports (DPRs) in March 2002. Subsequently, GOI intimated (December 2002) that the DPRs for the remaining projects would be prepared by the Board. Accordingly, the Chairman of the Board decided (December 2002) to appoint consultants for remaining projects, only if these DPRs could not be prepared departmentally.

3.1.12 In the second phase, GOI approved (June 2003) eight[7] towns in three Circles *viz.* Burdwan, Nadia and Jalpaiguri, for upgradation of distribution system. The projects included expenditure of Rs 12.50 crore for trouble call management system, computerisation, information technology for management information system, maintenance and communication equipment for all eight towns and construction of two billing and collection centres at Burdwan and Kulti towns with a view to improving customers' satisfaction.

Funding

3.1.13 Between May 2001 and September 2005, the Board received, Rs 502.18 crore from GOI towards investment component (Rs 126.42 crore) and incentive component (Rs 375.76 crore) and Rs 76.64[8] crore from FIs as counterpart funds under APDRP. The details are given at **Annexure - 22**.

Incentive component

3.1.14 APDRP provides that the Board would be eligible for incentive up to 50 *per cent* of the actual total loss reduction taking 2000-01 as the base year. This grant was to be utilised for improvement in the power sector only. A reference is invited to Paragraph 4.16 of the Audit Report (Commercial) 2002-03, West Bengal, where it was mentioned that the Board failed to draw incentive of Rs 420.82 crore for 2001-02, due to its failure to revise the accounts of the Board for 2000-01 despite being pointed out (July 2002) by Audit.

For the years 2002-03 and 2003-04, the Board received Rs 375.76 crore towards incentive against its claim of Rs 902.77 crore. The Board did not ascertain the reasons for non-release of balance amount of Rs 527.01 crore from GOI. The incentive claim of Rs 103.38 crore for 2004-05 was yet to be settled by GOI (September 2006).

Incentive of Rs 133 crore was utilised for payment of interest on loans instead of improvements in the power sector.

Moreover, out of the aggregate incentive of Rs 375.76 crore received (February/ September 2005) the Board had paid (March/ October 2005) Rs 133 crore to the GOWB as interest accrued on GOWB loans in contravention of APDRP guidelines. As regards the balance of Rs 242.76 crore although it was stated (March 2006) that this had been utilised for strengthening the distributions system the Board was not able to specify the projects for which the amount was utilised.

The Government/ Board accepted (September 2006) the audit observation.

[7] Burdwan, Kulti, Jamuria, Raniganj, Krishnagar, Nabadwip, Shantipur and Jalpaiguri
[8] PFC – Rs 59.87 crore including Rs 3.60 crore under APDP, REC – Rs 16.77 crore

Delayed/ non- release of funds by the State Government to the Board

Delays in releasing funds by the Government led to liability of Rs 13.90 crore towards penal interest.

3.1.15 According to the APDRP guidelines, GOWB was required to release funds to the Board within a week of their receipt from GOI. Failure to do so would be deemed as diversion of the funds and GOI would adjust an equivalent amount along with ten *per cent* penal interest against subsequent instalments of assistance. It was noticed in audit that GOWB invariably delayed the release of funds aggregating Rs 502.18 crore to the Board by four to 119 weeks leading to liability of Rs 13.90 crore towards penal interest to be borne by the Board.

3.1.16 During 2002-03 to 2004-05, GOI had released Rs 62.57 crore (loan: Rs 31.28 crore, grant: Rs 31.29 crore). GOWB released (February 2003 – August 2004) the entire funds to the Board entirely as interest carrying loan at the rate of 12 *per cent per annum* which was reduced to 8.5 *per cent per annum* with effect from 1 April 2005. This led to additional interest burden of Rs 6.51 crore on the Board. But it did not take up the matter with the GOWB for immediate redressal to avoid extra interest burden.

While accepting the audit observation, the Board stated (September 2006) that it sought further conversion of loan of Rs 20.88 crore to grant. Approval of the GOWB was awaited (September 2006).

Failure to draw funds and diversion of funds by the Board

The Board drew only 43 *per cent* of the sanctioned amount due to inordinate delay in completion of works.

3.1.17 Against Rs 467.87 crore sanctioned (February 2001-April 2005) by GOI (Rs 257.58 crore[9]), PFC (Rs 143.93 crore) and REC (Rs 66.36 crore) the Board drew only Rs 203.06 crore[10]. This was due to Board's failure to complete 18 projects so far (September 2006) though the scheduled dates of completion were from August 2004 to December 2005, as discussed in paragraphs 3.1.21, 3.1.24 to 3.1.35. In this connection, the following points were noticed during audit :

- PFC had sanctioned (November 2002) counterpart loan of Rs 66.36 crore to the Board for three[11] projects. The Board, in contravention of the terms and conditions of the loans, drew (March 2004) Rs 28.82 crore by way of reimbursement from PFC towards rural electrification (Rs 0.10 crore) and other system improvement works (Rs 28.72 crore) not covered under APDRP. Consequently, the Board burdened APDRP with additional interest liability of Rs 5.27 crore (March 2006).

- Loans from PFC were to be utilised within six months from the dates of their drawal. The Board drew (September 2004) loan of Rs 3.22 crore from PFC and used it as working capital. The Board refunded (24 August 2005) the entire amount resulting in avoidable

[9] Including Rs 52.75 crore for two projects not yet taken up, kept in a separate bank account
[10] GOI-Rs 126.42 crore, PFC-Rs 59.87 crore & REC-Rs 16.77 crore
[11] Howrah, Bidhannagar and South 24-Parganas Circles

payment of interest of Rs 38.32 lakh at the rate of 11 *per cent* for 13 months.

The Government/ Board attributed (September 2006) the delay in completion of projects to hindrances in land acquisition, inability to procure requisite materials from suppliers, change in site, way-leave problems and inability to prompt shutdown on operating feeders to contractors. The reply is not acceptable as all these hindrances could have been overcome through better planning and coordination.

Tender evaluation, contract management and procurement

3.1.18 NPC had drawn up bid documents for supply, erection and commissioning of the works under APDRP. The Board had constituted (August 2003) a Tender Evaluation Committee to evaluate and approve bids not exceeding Rs 10 crore. Audit scrutiny of eight contracts revealed that against the stipulation of initial advance of 10 *per cent* of the contract price and interim payment of 40 *per cent* on supply of materials by the contractor, the interim payment in all eight cases was enhanced (February 2005) from 40 to 60 *per cent* with the approval of the Board in violation of the contract conditions. Accordingly, the Board had released (March 2005-March 2006) excess funds of Rs 7.11 crore to the contractors with additional interest burden of Rs 35 lakh. Despite this, all the projects remained incomplete even after delays of more than two to five years due to delayed supply of matching materials by the contractors in time, as discussed in Paragraphs 3.1.34 & 3.1.35 below.

Defective selection of contractors

Deficient tendering procedure led to undue benefit of Rs 3.98 crore to contractor.

3.1.19 In view of the rigid completion schedule and for identification of single point responsibility for execution and completion of the job, GOI had recommended (June 2003) that the APDRP projects be executed on turnkey basis. Consequently, for all eight towns of the second phase, the Board specified (November 2003) in the notice inviting tenders (NITs) that the bidders would bid for all towns in a Circle separately as well as quote the total amount for each respective Circle namely, Burdwan, Nadia and Jalpaiguri. Accordingly, the bidders quoted (January 2004) individual rates for each of the eight towns and consolidated rates for each of the three circles.

It was noticed in audit that-

- For these three circles the Tender Evaluation Committee (TEC) failed to evaluate the supply bids by analysing the ex-works prices of similar materials quoted for each of these three Circles. Consequently, the price schedules issued to Subhash Projects and Marketing Limited (SPML), Sun Steel Industries Private Limited (SSIPL) and EMCO Limited (EMCO) in respect of 27 items were higher by two to 2,910 *per cent* in comparison to the lowest price for the same item with similar specification for other towns. This led to undue benefit of Rs 3.54 crore accruing to three contractors as detailed in **Annexure - 23**.

- The Board awarded supply and erection contracts for the four[12] towns in Burdwan Circle to the lowest bidder *viz.* SPML for the entire Circle at a cost of Rs 18.83 crore. The bidders had submitted separate bids for each town covered under a Circle as well as a single bid for the entire Circle. But the TEC did not evaluate separate bids for each Circle *vis-à-vis* the aggregate of lowest bids in respect of each town covered in that Circle. A comparison of the separate bids for each town showed that SPML had quoted lowest rates only in respect of Burdwan (Rs 10.86 crore) and Kulti (Rs 3.93 crore) towns while ABB was the lowest bidder for Jamuria (Rs 1.51 crore) and Raniganj (Rs 2.09 crore) towns. Separate evaluation of bids would have reduced the cost to Rs 18.39 crore. Faulty bid evaluation resulted in undue benefit of Rs 44.42 lakh to the contractor.

The Government/ Board stated (September 2006) that it was 'hardly' possible to compare the rates for each Circle with other Circles. The reply is not acceptable because the bids were evaluated concurrently and hence comparison of rates for each Circle could have been made before awarding contracts.

Extra expenditure on procurement of meters

Procurement of costlier EME meters instead of static meters entailed extra expenditure of Rs 81.96 lakh.

3.1.20 Prolonged use of Electro-Mechanical Energy (EME) meters leads to loss of revenue due to slowing down of meters. To improve its' revenue collection by more accurate billing of consumers the Board decided (December 2001) to replace these meters with more accurate static meters. The Board of Members, however, approved (March 2006) the procurement of two lakh EME meters at Rs 637.05 each, instead of superior static meters which were cheaper also at Rs 596.07 each. Consequently, which on the one hand it failed to derive the revenue benefit envisaged through installation of more accurate meters, it incurred on the other hand excess expenditure of Rs 81.96 lakh on procurement of EME meters.

While accepting the audit observation, the Government/ Board assured (September 2006) to procure static meters only in view of their higher reliability.

The Board failed to achieve the reduction in ATC losses due to non-utilisation of 1.06 lakh meters.

3.1.21 With a view to reducing ATC losses, the Board procured (July 2004) six lakh static meters, of which 1.40 lakh meters valuing Rs 12.27 crore were despatched (July 2004 - October 2005) to eight towns. Audit scrutiny revealed that only 34,023 meters valuing Rs 4.25 crore were utilised till September 2006. The remaining 1.06 lakh meters valuing Rs 8.02 crore could not be utilised due to slow progress of work and non-supply of pilfer-proof boxes, required for installation of meters by the contractor.

Thus, the Board failed to achieve the planned reduction in ATC losses by 22.51 Mkwh valuing Rs 6.75[13] crore. Besides, it incurred additional liability

[12] Burdwan, Jamuria, Kulti and Raniganj
[13] Reduction in ATC loss : (53.73 Mkwh/ 2,52,065 meters) x 1,05,609 meters = 22.51 Mkwh at the rate of rupees three per unit

of interest of Rs 68 lakh from October 2005 to March 2006 on blocked up loan funds of Rs 8.02 crore. The Board stated (September 2006) that the meters could not be installed due to non-inclusion of provision for supply of pilfer-proof boxes in the supply orders as in the absence of pilfer-proof meters, tampering of meters was possible. The reply indicates that the procurement was not properly planned.

Procurement of distribution transformer meters

3.1.22 Under the MOU, the Board is required to undertake energy audit at all levels to identify and reduce T&D losses to 20 *per cent* by 2005. The Board constituted (February 2003) a Working Group[14], which decided to cover four[15] Circles and ten[16] towns under energy audit programme and to install 13,502 distribution transformer (DT) meters.

Two orders were placed`(April 2005) on Secure Meter Limited (SML) one for execution of the work at a cost of Rs 40.02 crore and second for data collection, preparation of report and service maintenance for two years at Rs 10.75 crore. On completion of the work by March 2006, the Board would achieve energy savings of Rs 76.39 crore in the first year.

It was noticed in audit that SML supplied all the 13,502 DT meters by December 2005. The Board also released (January 2006) 80 *per cent* payment. Till September 2006, 12,590 meters were installed. The remaining 912 meters (value : Rs 1.30 crore) were lying idle (September 2006). Consequently, the Board failed to fetch the targeted energy savings of Rs 1.24[17] crore from April to September 2006. While accepting the audit observation, the Board assured (September 2006) to install the balance DT meters expeditiously so as to achieve the benefit.

Implementation of projects

3.1.23 The DPRs for Howrah and Bidhannagar 'D' Circles as well as Krishnagar, Nabadwip and Jalpaiguri towns envisaged (March 2002/ March 2003) reduction in ATC losses by 83.086 Mkwh per annum valued at Rs 22.39 crore on investment of Rs 113.40 crore. The deficiencies noticed in the implementation of these projects are discussed in the succeeding paragraphs :

Delays in taking up the work and implementation

3.1.24 Completion of the projects in Howrah and Bidhannagar 'D' Circles (Phase - I) was stipulated by February 2003 and April 2004 respectively and that of Krishnagar, Nabadwip and Jalpaiguri towns (Phase - II) by

[14] Chief Engineer – APDRP, Material Controller and SE, Energy Management Cell
[15] Howrah, Bidhannagar, South 24-Parganas and Jalpaiguri
[16] Krishnagar, Shantipur, Nabadwip, Jamuria, Kulti, Raniganj, Haldia, Burdwan, Jalpaiguri & Asansol
[17] Anticipated annual savings of Rs 76.39 crore on investment of Rs 40.02 crore x
Rs 1.30 crore (cost of meters to be installed) x six months (April – September 2006)

March 2005. The work remained incomplete even after delays of 23 to 37 months respectively **(Annexure – 24)** for the following reasons.

Phase - I

The consultant was not given any time schedule to submit DPRs.

- Although GOI had sanctioned the projects in February 2001, it appointed NPC as the consultant only in August 2001 with scheduled commencement of the work from 15 September 2001 leading to delay of seven months. Further, the appointment order failed to specify the time frame for submission of DPRs. NPC submitted DPRs and bid documents in March 2002 and November 2002 respectively.

Tendering process was delayed.

- Though the Board had received the bid documents from NPC in November 2002, the tendering process was taken up only in January 2004 after a lapse of 13 months.

There were delays in placing LOAs on the contractors.

- For Howrah "D" Circle, the Board issued (January, February and June 2004) letters of award (LOA) on three[18] contractors for aggregate contact price of Rs 40.92 crore for works stipulated to be completed by November 2005, July 2005 and August 2005 respectively. The issue of LOA to EMCO Limited for construction of five new sub-stations was delayed by five months for reasons not on record. Similarly, at Bidhannagar, the Board, issued (January/ February 2004) LOAs to three[19] contractors for a total cost of Rs 22.65 crore to be completed by February 2005, May 2005 and November 2005, when the projects were to be completed by April 2004.

  The Government/ Board attributed (September 2006) the delays to lack of experience in preparing the bid documents for turnkey projects as well as observance of formalities like determining techno-commercial eligibility of vendors, evaluation of price bids, undertaking price negotiation and obtaining approval of the TEC/ Board. The contention is not acceptable, as the Board had taken up the tendering process after full one year of receipt of bid documents and there was sufficient time for making preparation for expediting the processing of bids.

LOAs were issued without ensuring availability of land resulting in non-achievement of projected energy savings of Rs 32.87 crore.

- The LOAs were issued without ensuring availability of land. Consequently, there were delays of two to six months in approval of drawings and of two to twenty one months in handing over of the sites by the Board. The Chairman of the Board stated (September 2006) that the Land & Land Reforms department, GOWB had accorded lesser importance to acquire land required by the Board. The fact is not tenable as the Board should have pursued the matter with the higher authority for expeditious acquisition of land.

As a result of these delays, Howrah and Bidhannagar 'D' Circles failed to achieve projected energy savings of 64.53[20] Mkwh (value : Rs 19.36 crore)

[18] Descon Limited, KEC International Limited & EMCO Limited
[19] Biecco Lawrie Limited, EMCO Limited and Indo Power Projects Limited
[20] Annual savings of 33.67 Mkwh for Howrah over 23 months at Rs 30 lakh per Mkwh

and 45.02[21] Mkwh (value : Rs 13.51 crore) respectively worth Rs 32.87 crore. Some instances of delays and deficiencies in implementation are discussed in the succeeding paragraphs.

Construction of new lines etc. at Howrah

The work scheduled to be completed by August 2005 was still in progress due to delays in revision of estimates, erection work etc.

3.1.25 The Board handed over (February 2004) the site at Howrah to the contractor, KEC International Limited for feeder augmentation, construction of new lines and augmentation of overloaded distribution transformers (DTs) at a cost of Rs 21.67 crore for completion by August 2005. The Board took up the detailed joint survey after almost two years in December 2005 and on the basis of joint survey, the estimate was reduced to Rs 20.76 crore. Even after expenditure of Rs 12.10 crore, only 50 *per cent* of the work had been completed (September 2006) due to poor performance of the contractor, failure of the Board to monitor the progress of the work and delay in revision of estimated quantities for supply of materials and erection work. The Board recovered (May-August 2006) liquidated damages of Rs 1.44 lakh only from the contractor on *ad-hoc* basis. As a result of delay, the Board failed to achieve the anticipated savings in energy of Rs 97[22] lakh envisaged in the DPR.

Delay in construction of 33/11 KV sub-stations at Howrah

3.1.26 The Board awarded (June 2004) the construction of five[23] new 33/11 KV sub-stations to EMCO Limited at Rs 13.77 crore (material supply : Rs 8.98 crore; erection : Rs 4.79 crore) for completion by September 2005. Since the Board had awarded the contract without acquiring land, it delayed handing over the sites to the contractor by one to seven months and the completion schedule was, therefore, extended to June 2006.

Delay in construction of five new substations by the contractor led to loss of energy savings of Rs 1.40 crore.

In contravention of the condition of the LOA, EMCO sub-contracted (August 2005) the entire job to Subhash Projects and Marketing Limited (SPML) without the approval of the Board. While the construction of three sub-stations was in progress, EMCO stopped (December 2005) the construction of two sub-stations at Alampur and Suvorara on the pretext that the land was extremely low-lying for which volume of land filling required was huge and uneconomic. The work on all the five sub-stations is still incomplete (August 2006). Till March 2006, the Board had incurred expenditure of Rs 3.61 crore on the construction of three sub-stations. Further, Rs 95.98[24] lakh were spent towards material supply and soil testing for the remaining two sub-stations, but the construction work was not taken up (September 2006) for which no reason was on record.

[21] Annual savings of 23.49 Mkwh for Bidhannagar over 23 months at Rs 30 lakh per Mkwh
[22] Augmentation by 11.85 MVA X Annual savings of 1.41 Mkwh per MVA X 10 *per cent* growth @ Rs30 lakh per Mkwh for seven months
[23] Deulgram (Kalyanpur), Suvorara, Mugkalyan, Alampur and Jangalpur-II
[24] Payment towards material supply – Rs 93.54 lakh; soil testing etc. – Rs 2.44 lakh

The Board did not enforce the contract condition with regard to levy of liquidated damages of Rs 55.08[25] lakh on the contractor, while it had to forgo the anticipated savings in energy of Rs 1.40[26] crore envisaged in the DPR.

Renovation and modernisation of 33/11 KV sub-stations at Howrah

3.1.27 The Board awarded (January 2004) the work of renovation and modernisation (R&M) of eleven[27] 33/11 KV sub-stations to DESCON at a cost of Rs 5.48 crore (supply of material : Rs 4.83 crore, erection : Rs 0.65 crore) for completion by January 2005. It was envisaged that the work would save 1.72 Mkwh of power annually valuing Rs 44 lakh.

The Board delayed handing over the work fronts by six months leading to extension of scheduled completion to July 2005. It further took three to six months for approval of drawings, one to three months for inspection as well as issue of material despatch instructions. Out of eleven, eight sub-stations were completed (February/ April 2006) after delays of six to eight months. The work on two[28] sub-stations was in progress (September 2006).

The Board had abandoned (November 2005) the work of the remaining one sub-station at Ranihati, after spending Rs 21.60 lakh. Thereafter, the Board selected (December 2005) a new location for construction of control room building for the sub-station. Consequently, expenditure of Rs 21.60 lakh proved to be infructuous.

The total expenditure incurred by the Board on this work as on March 2006 was Rs 3.98 crore. The Board did not levy liquidated damages of Rs 27.40 lakh on DESCON. Thus, due to inordinate delay of fifteen months (January 2005 - March 2006), the Board failed to achieve any benefit out of the expenditure of Rs 4.20 crore incurred. As a result, it did not achieve the annual projected power savings of Rs 51[29] lakh. The Board accepted (September 2006) the audit observation.

3.1.28 Similarly, at Bidhannagar, the works of augmentation and construction of 14 sub-stations, installation and augmentation of distribution transformers *etc.* were awarded (January – February 2004) to three contractors at an aggregate cost of Rs 22.65 crore, to be completed between February and November 2005. The points noticed in audit with regard to the execution of these works are discussed in the subsequent paragraphs.

[25] At the rate of 0.5 *per cent per* week for eight weeks (July-August 2006) on Rs 13.77 crore
[26] Addition of 69.3 MVA X Annual savings of 1.35 Mkwh per MVA X 10 *per cent* growth @ Rs30 lakh per Mkwh for six months
[27] Jangalpur, Kona, Amta, Banitabla, Singti, Makardah, Liluah, Bagnan, Baltikuri, Ranihati and Uluberia Industrial Growth Centre
[28] Bagnan and Baltikuri
[29] Annual projected savings of Rs 44 lakh for 14 months

Renovation and modernisation (R&M) of 33/11 KV sub-stations

3.1.29 The Board entrusted (January 2004) the R & M of twelve[30] 33/11 KV sub-stations including augmentation of transformation of capacity of three[31] sub-stations (estimated cost : Rs 7.26 crore), to EMCO Limited at Rs 5.37 crore (supply : Rs 4.17 crore; erection : Rs 1.20 crore). The entire work, on scheduled completion in January 2005, would save 1.36 Mkwh of power annually valuing Rs 30 lakh, as well as create a better information system.

Renovation and modernisation of twelve sub-stations was lagging behind schedule thereby depriving the Board of the projected benefit.

While seven[32] work fronts were made available to EMCO in February 2004, the Board delayed (May 2004) handing over of five[33] work fronts by three months, leading to extension of target completion date to May 2005. In the meantime, EMCO sub-contracted (March 2004) the work to Subhash Projects and Marketing Limited (SPML), in violation of the contract.

By March 2006, R&M work of ten sub-stations had been completed whereas 10 *per cent* work was pending at the remaining two sub-stations. Further, augmentation of transformation capacity had been completed in one sub-station and 90 *per cent* in the remaining two sub-stations as of September 2006. The delay (20 months) was mainly attributable to absence of specific directive from the SE to EMCO regarding construction of pile foundation, delay in handing over work fronts and delay in issuing material despatch instructions to the contractor. The Board accepted (September 2006) the audit observation.

Thus, even after incurring an expenditure of Rs 3.60 crore, the envisaged energy savings of Rs 35[34] lakh could not be achieved (March 2006).

Construction of 33/11 KV sub-stations

3.1.30 The Board issued (January 2004) a LOA for construction of two 33/11 KV sub-stations (Mahisbathan and Rajarhat), under Bidhannagar 'D' Circle to Biecco Lawrie Limited (BLL) at Rs 6.50 crore (supply of material : Rs 4.30 crore; erection : Rs 2.20 crore) against estimated cost of Rs 6.77 crore. On completion of the work by March 2005, the Board would achieve annual power savings valued at Rs 1.35 crore.

3.1.31 The site for Mahishbathan sub-station was handed over to BLL only in February 2004. Against the target for completion by May 2005, the sub-station was commissioned at a cost of Rs 3.14 crore in August 2005 after delay of three months, due to delay in submission of control room detailed design and drawings by BLL.

3.1.32 Similarly, the Board belatedly handed over the site for the Rajarhat sub-station to BLL only in June 2004. Consequently, the completion schedule

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[30] M-I, M-II, M-III, M-V, Narayanpur, Bagjola, Mandalgathi, Minakhan, Bisarpara and three
[31] Chandiberia, Sajirhat and Bhangar
[32] M-V, Bhangar, Narayanpur, Bagjola, Mandargathi, Chandiberia and Mirakhan
[33] M-I, M-II, M-III, Bishanpara and Sajirhat
[34] Annual projected energy savings of Rs 30 lakh for 14 months

was extended to September 2005. After an expenditure of Rs 41.27 lakh (sub-station : Rs 26.61 lakh; associated 33 KV overhead line : Rs 14.66 lakh), only 12 *per cent* physical progress had been achieved (September 2006) due to poor performance of BLL. Moreover, the control room building as well as the route plan for outgoing 11 KV overhead lines of the sub-station was incomplete (September 2006).

The Board, in violation of the contract, waived the liquidated damages of Rs 33 lakh on BLL for delay in completion giving undue benefit to BLL, while it failed to achieve the anticipated saving in energy of Rs 75[35] lakh. The Board stated (September 2006) that LD was waived as BLL was a sick unit.

Installation/ augmentation of distribution transformers and feeders

Delay in installation of distribution transformers despite expenditure of Rs 7.39 crore deprived the Board of the anticipated savings of Rs 50 lakh.

3.1.33 The Board issued (February 2004) LOA to Indo Power Projects Limited (IPPL) for installation/ augmentation of 206[36] distribution transformers (DTs) and augmentation of 33 KV and 11 KV lines, for Rs 10.78 crore (supply of material : Rs 9.23 crore; erection : Rs 1.55 crore) by November 2005. On completion, the Board would achieve annual savings of power of Rs 1.13 crore.

Till March 2006, IPPL had completed installation of 126 DTs, of which 113 DTs were handed over to the Board. Meanwhile the Board had installed 38 DTs at an aggregate expenditure of Rs 7.39 crore. The delay was attributable to delay in selection of the sites and undertaking inspection of materials. Consequently, the projected savings of power of Rs 50[37] lakh in respect of 55 DTs not installed/ put to use, had not materialised. The Board accepted (September 2006) the audit observation.

Phase – II

Upgradation of sub-transmission and distribution system

Installation of meters, DTs, overhead lines etc. was lagging behind the schedule.

3.1.34 With a view to upgrading sub-transmission and distribution system in Krishnagar, Nabadwip and Shantipur towns under Krishnagar 'D' Division of Nadia 'D' Circle, GOI had approved (June 2003) a project at an estimated cost Rs 18.69 crore. The project was anticipated to yield annual power savings of Rs 4.71 crore. The project included metering of consumers and DTs. Accordingly, the Board placed (April 2004) an LOA on Sun Steel Industries Private Limited (SSIPL) for execution of works (excluding procurement of meters) at Rs 10.18 crore to be completed by April 2005. The meters were to be supplied by the Board.

Against the target of 48,610 single-phase meters and 201 three-phase meters, only 14,041 (29 *per cent*) single-phase and 181 three-phase meters were installed till March 2006, even after spending Rs 10.01 crore. Similarly, of the

[35] Addition of 12.61 MVA X Annual savings of 1.59 Mkwh per MVA X 15 *per cent* growth @ Rs30 lakh per Mkwh for three and ten months at Mahisbathan and Rajarhat repectively
[36] Installation – 158 and augmentation - 48
[37] Addition of 24.1 MVA X Annual savings of 1.39 Mkwh per MVA X 15 *per cent* growth @ Rs30 lakh per Mkwh for four months

78 new DTs, only 60 (77 *per cent*) were installed and against the target of erecting 52 circuit kilometres (ckm) for 11 KV overhead lines, only 42 *per cent i.e.* 21.58 ckm was completed. Other works like consumer indexing, re-conductoring[38] of 33 KV lines, phase conversion etc. had not been taken up so far (September 2006). The reasons for delay, as analysed in audit, were delay in approval of drawings (five months), inspection of materials and issue of despatch instructions (three months) by the Board as well as non-supply of matching materials by the contractor for installation of balance 18 DTs. Thus, even after spending Rs 10.01 crore, the power saving of Rs 5.10 crore as envisaged in the DPR could not be achieved.

In reply, the Board assured (September 2006) to complete the balance works expeditiously.

3.1.35 Similarly, for Jalpaiguri town, GOI had approved (May 2003) a project for consumer metering, renovation and modernisation works at an estimated cost of Rs 21.02 crore. Accordingly, the Board placed (April 2004) an LOA on EMCO Limited (EMCO) for supply (Rs 16.26 crore) and erection (Rs 2.15 crore) by May 2005. On completion, the project was anticipated to yield annual revenue of Rs 5.18 crore. Although the Board had incurred expenditure of Rs 13.30 crore till March 2006, the work was incomplete as discussed below :

- Five[39] items of work costing Rs 2.22 crore were not taken up for no reason on record.

The Board failed to install a single meter out of 26,842 meters procured at Rs 2.31 crore.

- Although 26,842 single phase meters were procured (September-October 2004/ June 2006) for Rs 2.31 crore, not even one had been installed as the Board had not procured the required pilfer-proof boxes for their installation. Later, the Board diverted 11,000 of these meters (cost : Rs 94.60 lakh) to Coochbehar, Jalpaiguri and Alipurduar divisions of Jalpaiguri Circle, which were outside the scope of APDRP. Further, 24 three-phase meters, required to be procured for industrial consumers, had not been procured (September 2006).

Of 135 DTs commissioned after delays of six to 10 months, only six were in commercial operation.

- Against the target of supply and commissioning of 603 new DTs by September 2005, EMCO had supplied 365 DTs (cost : Rs 3.91 crore) of which only 135 DTs (21.84 *per cent*) were commissioned (October 2005 - March 2006) after delays of six to 10 months, while the remaining 230 DTs (cost : Rs 2.47 crore) had not been installed due to non-supply of matching materials by EMCO. Of the 135 DTs commissioned, only six were in commercial operation and the remaining 129 had not been loaded till September 2006. The time overrun was mainly attributable to delays in approval of drawings, inspection of DTs, issue of delivery instructions (DIs) by the Board, delivery of materials by the contractor and the Board's failure to

[38] Replacement of existing wires/ conductors with conductors of similar or higher capacity

[39] Procurement and installation of 24 three phase consumer meters and 50 trivector meters for distribution transformers (DT), computerisation and IT for MIS, trouble call management system (IVRs, Call center, Mobile van etc.) and billing and collection centre

intimate to the contractor load configuration of each DT as well as load/ load sharing by different feeders.

Installation of new 33 KV, 11 KV and low-tension lines was delayed due to the contractor's failure to supply matching materials.

- Against the target of erecting 20.17 kilometres (km) of new 33 KV lines, 61.4 km of new 11 KV lines and 101 km of new low-tension lines, only 74, 25 and 55 *per cent* i.e. 15 km, 15.5 km and 56 km respectively, had been completed till September 2006. Moreover, although EMCO had supplied conductors (cost : Rs 3.17 crore) for new 11 KV lines (45.9 km) and re-conductoring of LT line (45 km), the work remained incomplete due to non-supply of matching materials by EMCO.

Meters, DTs etc. valuing Rs 7.95 crore were not utilised.

Due to delay of 16 months, the Board failed to reduce ATC losses aggregating 21 Mkwh valuing Rs 6.89 crore during June 2005 to March 2006. Moreover, although the Board paid 60 *per cent* against materials supplied, EMCO delayed supply of matching materials, leading to non-utilisation of meters, DTs and conductors costing Rs 7.95 crore.

Targets *vis-à-vis* achievement of benchmarks

Failure to achieve the targeted increase in revenue and reduction of ATC losses led to revenue forgone of Rs 254.12 crore.

3.1.36 Implementation of APDRP in Bidhannagar and Howrah Circles was taken up in August 2002 at an aggregate expenditure of Rs 75.99 crore up to 31 March 2006. Against the target of increase in revenue of 30 *per cent* and of 50 *per cent* reduction in ATC loss over the base year 2002-03, none of the Circles had achieved the targets, resulting in revenue forgone (Rs 134.37 crore) and energy savings forgone (Rs 119.75 crore) aggregating Rs 254.12 crore. While accepting the audit observation, the Government/ Board stated (September 2006) that on completion of the on-going works the position would improve.

3.1.37 According to the MOA, separate memoranda of understanding (SMOU) based on the Circle-wise performance and benchmark parameters were to be executed between the Zonal Managers (ZMs) and SEs of the implementing Circles, between the SEs of the covered Circles and the DEs and between the DEs and Assistant Engineers (AE) of Group Electric Supplies under the respective Circles by October 2002 so as to fix responsibility down the line.

At Howrah, Bidhannagar and Jalpaiguiri, SMOU were executed between July 2004 and March 2005 after delays of 21 to 28 months, while Nadia Circle was yet to execute SMOU (September 2006). As a result, the Board failed to achieve the benchmark parameters specified in the MOA.

Even after expenditure of Rs 99.88 crore, four Circles had not achieved most of the benchmark parameters.

3.1.38 The performance of Howrah, Bidhanangar, Nadia and Jalpaiguri Circles as of March 2006 with regard to the twelve specified benchmark parameters is given in **Annexure – 25**. It would be seen from the annexure that all the four Circles failed to achieve most of the parameters due to lax monitoring by the Board and its' field offices, failure of the Board to ensure accountability by entering into SMOU on time and inordinate delays in implementation of projects.

- Out of 12 parameters, Howrah 'D' Circle failed to achieve eight parameters even after incurring expenditure of Rs 47.59 crore (99 *per cent*) against project outlay of Rs 48.09 crore.
- Till March 2006, Bidhannagar Circle had achieved only two parameters after expenditure of Rs 28.40 crore against the estimate of Rs 31.20 crore.
- Nadia Circle failed to achieve any of the parameters despite incurring an expenditure of Rs 10.59 crore till March 2006.
- Jalpaiguri Circle had achieved six parameters after expenditure of Rs 13.30 crore.

The Government/ Board attributed (September 2006) poor performance to non-completion of the APDRP works. Moreover, the works did not always cover the entire Circle, Division or even Group Electric Supply. This indicated that not only were there delays in execution but that the projects had not been drawn up in a holistic manner.

Objectives not achieved

3.1.39 The objectives of implementation of APDRP *viz*. reduction in transmission and distribution (T&D) and aggregate technical and commercial (ATC) losses, improved reliability of power supplied as well as enhancement of customer satisfaction over the base years of 2001-02 and 2003-04 for Phases-I and II respectively, have not been achieved as discussed below :-

T&D and ATC losses

None of the circles/ towns had achieved the target of reduction in ATC loss.

3.1.40 T&D loss is the excess of input energy over the energy billed for, whereas ATC loss represents the excess of input energy over the energy for which actual revenue is realised. While T&D loss evaluates only the billing efficiency, ATC loss also reflects the collection efficiency. The table below shows percentage of T&D and ATC loss, target provided in the MOA/ DPR and actuals in 2005-06 for two Circles and three towns.

Circle / Town	Base year[40]	T&D loss (in *per cent*)			ATC loss (in *per cent*)		
		Existing[41]	Target	Actual (2005-06)	Existing[42]	Target	Actual (2005-06)
Howrah Circle	2001-02	37.89	20.00	18.03	37.42	15.59	19.46
Bidhannagar Circle	2001-02	37.50	20.00	15.25	37.42	10.00	24.39
Krishnagar Town	2003-04	34.21	16.67	25.37	36.29	18.22	29.97
Nabadwip Town	2003-04	34.64	16.67	23.08	45.67	22.22	24.22
Jalpaiguri Town	2003-04	31.97	15.97	3.85	56.08	11.94	21.87

(Note : Earlier only T&D loss was determined with ATC loss being a subsequent indicator)

[40] As per the DPR, the base year is the year in which the project was sanctioned
[41] Based on figures reported to GOI
[42] As worked out at field level prior to implementation of APDRP

It would be seen that Krishnagar and Nabadwip failed to achieve the targets for T&D loss. None of the Circles/ towns had, however, achieved the target for ATC loss reduction. Moreover, except in Jalpaiguri, the actual ATC loss was higher than the T&D loss indicating that revenue collection was not in tandem with billing. In Jalpaiguri, the actual ATC loss was substancially in excess of the reported T&D loss.

Reliability of supply and consumer satisfaction

3.1.41 To improve the reliability of power supplied, outages were to be reduced and failure rate of distribution transformers (DTs) was to be brought down by installing 11KV/ 33KV circuit breakers as well as LT switch capacitors and ensuring regular repairs and maintenance of DTs. The number of complaints lodged by the consumers indicated the level of consumer satisfaction. The target as per the DPRs *vis-à-vis* achievement in 2005-06 was as follows-

Sl. No.	Particulars	Howrah Circle	Bidhannagar Circle	Krishnagar Town	Nabadwip Town	Jalpaiguri Town
1	Feeder outages (in numbers)	2,946 (2,000)	1,793 (900)	1,465 (200)	1872 (175)	615 (1,200)
2	Failure rate of distribution transformers (in *per cent*)	15	7	5	8	8
		(Nil)				
3	Consumer complaints (in numbers)	360 (200)	116 (160)	680 (200)	580 (200)	120 (80)

(Figures in brackets indicate targets to be achieved)

It would be seen from the table above that in four Circles/ towns, feeder outages exceeded the targets by 47 to 970 *per cent*, indicating that the reliability of power supplied was low.

The achievement by way of reduction in T&D as well as ATC losses, improvement in reliability of power supply and customer satisfaction in these five Circles/ towns was, thus, not commensurate with the expenditure of Rs 97.25 crore till 31 March 2006.

Distribution circles as profit centres

3.1.42 The MOA (July 2002) stipulated that the distribution Circles should be operated as profit centres and as independent administrative units with adequate delegation of technical, financial and commercial powers *etc*. The Board had, however, not acted upon the stipulation. The Government/ Board stated (September 2006) that initiatives had been taken towards implementation of distribution Circles as profit centres. The reply is silent as to why action was not initiated earlier.

Monitoring

Monitoring over the execution of works was deficient.

3.1.43 The State-level Distribution Reforms Committee (SDRC), constituted in December 2002 after delay of two months, held only two[43] meetings against the requisite 13 meetings till March 2006. Further, SEs were required to monitor and review achievements of technical and commercial benchmarks each month and report the findings and action proposed to GOI. Despite slippages in execution of works, the review was deficient inasmuch as only SE, Jalpaiguri Circle held only one meeting till March 2006, while five SEs of the six Circles had not held any monthly meetings against the requirement of 216 meetings.

Conclusion

The implementation of the Accelerated Power Development and Reforms Programme had not received the required attention as there were delays in taking up the execution of works, slippages in completion of works, failure to utilise the completed work and deficient monitoring over the ongoing works. Consequently, the objective of reducing Aggregated Technical & Commercial losses did not fructify.

Recommendations

The Board needs to –

- **improve its planning and coordination system so as to prevent delays in acquisition of land, way leave permission, *etc*.**
- **speed up the implementation of projects by enhancing the quality of monitoring and control;**
- **undertake review of the schemes' implementation regularly to identify slippages in the completion schedule and take effective remedial measures; and**
- **identify the projects for which incentive under APDRP is to be utilised and ensure such utilisation.**

The Government/ Board stated (September 2006) that the recommendations would be considered for future projects.

[43] 19 January and 20 May 2004

3.2 MANAGEMENT OF ASSISTANCE EXTENDED TO OTHER BACKWARD CLASSES – WEST BENGAL BACKWARD CLASSES DEVELOPMENT AND FINANCE CORPORATION

Highlights

Performance of West Bengal Backward Classes Development and Finance Corporation (Corporation) with regard to management of assistance extended to Other Backward Classes (OBCs) was found to be sub-optimal. Even after a decade's operation, the Corporation was yet to build up a database of eligible beneficiaries in the State to ensure coverage of all in a phased manner.

(Paragraph 3.2.7)

Both physical as well as financial achievement under all the schemes operated by the Corporation declined substantially during 2001-06 due to inordinate delays in selection of beneficiaries, deficient pre-sanction appraisal and lack of awareness.

(Paragraphs 3.2.13, 3.2.23 & 3.2.24)

Term loans aggregating Rs 7.12 crore were disbursed to 890 beneficiaries without completion of the pre-sanction appraisal and pre-disbursement formalities, in violation of the guidelines. Another Rs 13.21 lakh were released to 18 fake beneficiaries in Malda district against forged OBC certificates.

(Paragraphs 3.2.20 & 3.2.21)

The Corporation did not maintain any database of the eligible beneficiaries or SHGs under the micro financing scheme. Against the physical target of 4,650 beneficiaries and financial target of Rs 6.03 crore during 2001-06, the Corporation could disburse Rs 1.63 crore (40 *per cent*) out of the available funds of Rs 4.06 crore to 2,757 (59 *per cent*) beneficiaries due to failure of the Corporation to launch effective awareness programmes.

(Paragraph 3.2.23)

Only 344 women (8.79 *per cent*) out of 3,913 eligible beneficiaries were given financial assistance under the term loan scheme. Similarly, under Mahila Samriddhi Yojona the Corporation disbursed only Rs 69 lakh to 1,106 women beneficiaries only in two districts against the target of Rs 1.90 crore to 1,500 beneficiaries, thereby frustrating the objective of empowering poor women.

(Paragraphs 3.2.12, 3.2.19 & 3.2.23)

Against the physical target of 260 beneficiaries and the financial target of Rs 1.13 crore under the education loan schemes during 2001-06, the Corporation disbursed Rs 16.95 lakh (15 *per cent*) to only 13 (five *per cent*) beneficiaries due to lack of awareness campaign among the aspiring students.

(Paragraph 3.2.24)

The recovery of dues substantially declined from 46 in 2001-02 to 31 *per cent* in 2004-05 and the outstanding dues increased by 19 times from Rs 0.35 crore in 2001-02 to Rs 6.49 crore in 2004-05 due to lax monitoring mechanism coupled with absence of effective recovery efforts.

(Paragraph 3.2.27)

The post-disbursement monitoring mechanism both at the headquarters and district level was deficient. The Corporation did not conduct any evaluation study on the impact of the schemes. The Internal Control mechanism with regard to sanction, disbursement and recovery was also deficient.

(Paragraphs 3.2.28, 3.2.29 & 3.2.30)

Introduction

3.2.1 West Bengal Backward Classes Development and Finance Corporation (Corporation) was set up (October 1995) under the West Bengal Backward Classes Development and Finance Corporation Act, 1995 with the objective of promoting economic development of the Other Backward Classes (OBC) people by way of providing financial assistance for income generating activities, training programmes to promote entrepreneurship for self employment, marketing assistance to beneficiaries as well as for pursuing professional/ technical education.

The Corporation functions as a State Channelising Agency (SCA) of National Backward Classes Finance and Development Corporation (NBCFDC). It has been providing financial assistance to OBC beneficiaries since 1999, under various self-employment schemes.

3.2.2 The Managing Director is the Chief Executive of the Corporation. He is assisted by the General Manager, the Additional General Manager and the Chief Accounts Officer in the day-to-day administration of the Corporation. The Project Officer-cum-District Welfare Officer/ District Welfare Officer, Backward Classes Welfare Offices are the nodal officers in the district for implementation of the self employment loan schemes. The Corporation has only one office in Kolkata.

Scope of Audit

3.2.3 The performance of the Corporation during 2001-02 to 2005-06 with regard to management of assistance extended to OBC people was reviewed between April and July 2006 through examination of records at Headquarters' office at Kolkata and six[1] out of 19 districts. The sample selected represents 26 *per cent* of the total backward classes people (1.34 lakh) to whom OBC certificates were issued during the last four calendar years up to December 2005 and 52 *per cent* (Rs 15.06 crore) of the total funds (Rs 29.16 crore) disbursed in these districts.

Audit objectives

3.2.4 The performance audit was undertaken with a view to assessing whether :

- an efficient system of identifying the eligible beneficiaries was devised and implemented;
- coverage of the beneficiaries was commensurate with the size/ area/ density of OBC population in the State;
- scheme funds drawn were put to effective use in a time bound schedule and there were no refunds or diversions;
- the co-ordination among the local, district authorities and the Corporation was adequate and effective;
- pre-disbursement inspection and formalities to be fulfilled by the beneficiaries were complied with;
- the system of recovery and action taken in case of default was effective;
- the Corporation had put in place an effective system of monitoring of the implementation of the schemes after disbursement of loans;
- an Internal Control mechanism was in place and was operated efficiently; and
- the schemes implemented were periodically reviewed and evaluated to assess their efficacy and outcome for necessary corrective action, if any.

Audit criteria

3.2.5 The performance of the Corporation with regard to the management of assistance extended to OBC beneficiaries was assessed against-

[1] Kolkata, 24 Parganas (North), 24 Parganas (South), Howrah, Malda and Uttar Dinajpur

- objectives of the Corporation;
- Annual Action Plan (AAP);
- guidelines issued by NBCFDC for implementing different schemes;
- laid down procedures for sanction and disbursement of funds;
- instructions issued by the Backward Classes Welfare (BCW) department for implementing schemes;
- agenda, Board minutes and
- prescribed procedures for post-disbursement monitoring.

Audit methodology

3.2.6 Audit adopted the following mix of methodologies for attaining audit objectives with reference to audit criteria :

- examination of Annual Action Plan,
- scrutiny of Agenda and Board Minutes, scheme files and correspondence files,
- scrutiny of Guidelines issued by NBCFDC for implementation of schemes,
- examination of loan files at Headquarters and offices of Project officer-cum-District Welfare Officers of Backward Classes Welfare department,
- examination of Beneficiary Loan ledgers, at Headquarters, and
- interviewing the Management and the beneficiaries.

Audit findings

The audit findings were reported to the Government/ Management in August 2006 and discussed at the meeting of Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 18 August 2006 where the Government was represented by the Joint Commissioner, Backward Classes Welfare Department and the management was represented by the Managing Director of the Corporation. The review was finalised after considering the views of the Government/ Management.

Audit findings are discussed in the succeeding paragraphs.

Planning

Formulation of Annual Action Plan was deficient.

3.2.7 The Corporation did not formulate any long-term perspective plan to implement the schemes for the social, economic and educational upliftment of OBC people of the State. It did not build-up a database of the eligible beneficiaries with reference to the size/ area/ density of population in the State to enable fixing of targets in order to ensure coverage of all eligible beneficiaries in a phased manner. It only prepared Annual Action Plans (AAP) indicating the annual physical and financial targets under different schemes on an *ad hoc* basis without considering the concentration of eligible beneficiaries in different districts and the past performance. Thus, the AAP formulated by the Corporation lacked focus and direction required for achievement of objectives of the schemes.

The Management assured (August 2006) to take steps to collect the details of income of OBC certificate holders from Sub-Divisional offices to draw the plan accordingly.

Targeted population not ascertained

Survey of OBC population was not yet conducted.

3.2.8 The total OBC population in the State had neither been ascertained by the Government nor by the Corporation. During the last four calendar years ended December 2005, the State Government had issued OBC certificates to 1.34 lakh people. The Government stated (June 2006) that on the basis of estimates included in the Community based Census of 1911 and 1931, their migratory history and population growth rates, the present population of OBC communities had been estimated at 15.08 *per cent* of the total population. The district-wise population was not, however, on record. The Government of India had asked (July 2006) the State Government to conduct a survey of the OBC population in the State, but the State Government, however, intimated (August 2006) that it had no plan to conduct such a survey.

Formulation of schemes

3.2.9 Under the Self Employment Scheme, NBCFDC had formulated term loan, margin money loan, micro credit and education loan schemes. The Corporation has been implementing all these schemes, except the margin money loans scheme, since August 1999. Till March 2006, the Corporation had extended financial assistance aggregating Rs 34.36 crore to 8,634 beneficiaries under the term loan[2] (Rs 32.04 crore) and micro financing (Rs 2.32 crore). The Corporation had also imparted vocational training to 495 OBC students. The performance of the Corporation with respect to implementation of different schemes is discussed in the succeeding paragraphs.

[2] Includes loan given for agricultural & allied, business service, transport, education and Swarnima scheme for women

Term loan Scheme

3.2.10 With a view to providing concessional credit for the self employment activities of OBC people living below double the poverty line[3], the Corporation as a State Channelising Agency sanctioned term loans repayable in 20 quarterly instalments for income generating projects under agriculture, small business, artisan, handicrafts, transport *etc.*, costing up to rupees five lakh. Under the scheme, 85 *per cent* of the project cost was to be contributed by NBCFDC as loan while 10 *per cent* of the cost was to be borne by the State Government and the balance five *per cent* by the beneficiary. The loan carried interest at rates ranging from six to ten *per cent per annum*.

Sources and utilisation of term loan funds

3.2.11 The Corporation received loans from NBCFDC at interest rates varying from three to 7.5 *per cent per annum.* It also obtained equity from the State Government towards 10 *per cent* contribution to the project cost. The Corporation disbursed the term loans through different branches of West Bengal State Co operative Bank (WBSCB). The table below indicates the funds received *vis-à-vis* utilisation during the last five years ended March 2006:

(Amount: Rupees in crore)

Year	Opening balance	Funds received		Total funds available	Funds utilised (percentage)	Unspent funds
		NBCFDC	State Government			
2001-02	2.62	6.49	0.60	9.71	6.44 (66)	3.27
2002-03	3.27	3.62	-	6.89	6.11 (89)	0.78
2003-04	0.78	6.84	1.00	8.62	6.39 (74)	2.23
2004-05	2.23	3.96	0.95	7.14	4.54 (64)	2.60
2005-06	2.60	3.07	2.00	7.67	3.36 (44)	4.31
Total		**23.98**	**4.55**		**26.84**	

Targeted beneficiaries were denied financial assistance, while scheme funds were diverted.

It would be seen from the above table that the utilisation of funds declined drastically from 66 *per cent* in 2001-02 to 44 *per cent* in 2005-06. The unspent funds ranging from Rs 78 lakh to Rs 4.31 crore were diverted for investment in fixed deposits with the approval of the Chairman and the Managing Director. Consequently, 6,627 targeted beneficiaries, as discussed in paragraph 3.2.12, were denied financial assistance defeating the objectives for which the funds were meant.

The Management stated (August 2006) that the funds were not diverted as loan applications were sanctioned and disbursed at the headquarters of the Corporation within a few days. The contention is not correct because the Corporation drew funds in excess without assessing the actual requirement (keeping in view the eligible beneficiaries in hand at the district offices of the Backward Classes Welfare department) and diverted the unutilised funds.

[3] Annual income below Rs 40,000 in rural areas and Rs 55,000 in urban areas

Further, funds aggregating Rs 18.54 lakh, stated to have been disbursed to 320 beneficiaries in Malda district, were actually lying in different district branches of WBSCB due to non completion of field enquiry by the inspector of the Backward Classes Welfare department and/ or failure of the Corporation to send the requisite advice to WBSCB for release of funds to beneficiaries. The Management stated (August 2006) that all district offices had since been instructed suitably so that no such instance would occur in future.

Audit analysis revealed that low utilisation of funds was attributable to delay in identification of eligible beneficiaries, lack of awareness among the targeted populace, unrealistic assessment of requirement of funds, inordinate delays in processing loan applications of the beneficiaries by the district authority leading to delay in disbursement of loan, as discussed in the succeeding paragraphs.

Targets and achievement of term loan assistance

3.2.12 NBCFDC approved the annual physical and financial targets as indicated in the Annual Action Plan and accordingly sanctioned funds. Funds were, however, released by NBCFDC from time to time on receipt of requirement from the Corporation.

The following table indicates the targets *vis-a-vis* achievements made both in physical and financial terms for the last five years ending 31 March 2006:

(Amount : Rupees in crore)

Year	Target		Achievement	
	Physical	Financial	Physical (Percentage)	Financial (percentage)
2001-02	2,500	15.95	943 (38)	6.42 (40)
2002-03	2,400	17.61	940 (39)	6.09 (35)
2003-04	1,850	15.00	907 (49)	6.36 (42)
2004-05	2,700	11.12	634 (23)	4.50 (40)
2005-06	1,090	7.55	489 (45)	3.30 (44)
Total	**10,540**	**67.23**	**3,913 (37)**	**26.67 (40)**

It would be seen from the above table and the table in paragraph 3.2.11 that-

The Corporation failed to achieve both the physical and financial targets.

3.2.13 Though the Corporation progressively lowered both the physical and financial targets, it failed to achieve even these modest targets in any of the years during 2001-06. The physical achievement was at 23 to 49 *per cent*, while the financial achievements varied from 35 to 44 *per cent* during 2001-06. Consequently, 63 *per cent* of eligible targeted beneficiaries (6,627) were denied financial assistance despite availability of funds.

Non-achievement of target led to failure to draw Rs 43.25 crore from NBCFDC.

As a result of non-achievement of physical and financial targets and under-utilisation of funds received, the Corporation failed to draw the sanctioned amount aggregating Rs 43.25 crore during 2001-06 from NBCFDC. Though NBCFDC repeatedly urged the Corporation to draw more funds against the sanctioned amount, it failed to chalk out any plan to expedite the process of selection of beneficiaries and pre-sanction formalities so as to ensure the drawal of the entire amount of sanctioned funds.

The Management stated (August 2006) that the targets could not be achieved due to non-availability of separate district level infrastructure, guarantors and OBC certificates with a large section of the target group. Management further added that the SDOs were being requested to issue certificates to intending loanees on priority basis. The Government stated (August 2006) that vacancies in the cadre of Inspector in the Backward Classes Welfare department would be filled in on urgent basis to strengthen the district level infrastructure. The reply is silent as to why action could not be initiated earlier.

Beneficiary Identification Camps were not organised.

3.2.14 NBCFDC had directed (March 2002) the Corporation to hold 'Beneficiary Identification Camps' to have adequate number of eligible beneficiaries ready for obtaining loans. But the Corporation did not hold any such camp, thereby depriving the eligible OBC population of the scheme benefits. Resultantly, the targets fixed were not achieved and the assessment of requirement of funds was unrealistic. The Government/ Management accepted (August 2006) the audit observations.

3.2.15 To ensure speedy disposal of applications as well as transparency in the delivery mechanism, NBCFDC directed (January 2001) the Corporation to issue receipts against submission of loan applications to the applicants and to dispose off the applications quickly. No such receipts were, however, issued. The number of applications received was also not on record.

3.2.16 On receipt of applications from the eligible applicants, the applications were scrutinised and screened with reference to income, residence, caste, prospect of recovery at three levels - *Panchayat Samities*/ Block Development Officers, Project Officer-cum-District Welfare Officers and the Corporation.

There were inordinate delays in processing of loan applications.

As per the terms of sanction of NBCFDC, funds were required to be utilised within six months of drawal. Therefore, expeditious selection of beneficiaries was a pre-requisite to ensure utilisation of funds within the prescribed period. Audit scrutiny of 358 applications in six districts revealed, that due to delay in field enquiry, improper filling-up of applications and non-submission of requisite documents with the applications, there were delays ranging from 180 to 500 days in processing loan applications. In 59 cases the time taken was more than 500 days.

During interview, in the presence of the representatives of the BCW department, 53 beneficiaries of six selected districts intimated Audit that due to the cumbersome and lengthy process involved, innumerable visits to the district office of BCW department, Corporation and banks, difficulty in arranging guarantors, *etc.* they faced problems in availing of the credit facilities.

The Management stated (August 2006) that in the initial years regular meetings were held at the district level with the inspectors of the Backward

Classes Welfare department to expedite the process of sending proposals to the Corporation, but these inspectors were preoccupied elsewhere.

The Government assured (August 2006) in the ARCPSE meeting to recruit inspectors against the vacant posts to strengthen the process of finalising the loan proposals.

Delays in finalising loan applications led to payment of additional interest of Rs 62.05 lakh.

The delay in processing of the loan applications and in issue of final sanctions not only resulted in denial of timely benefit to the beneficiaries but also led the Corporation to pay additional interest of Rs 62.05* lakh to NBCFDC up to 31 March 2005 due to its failure to utilise the funds within the prescribed period.

Awareness campaign programmes organised were insignificant.

3.2.17 In order to popularise the schemes, holding of awareness campaigns is a pre-requisite. NBFDC also repeatedly directed the Corporation to publicise the schemes amongst the targeted people. The Corporation, however, held only two awareness programmes in Coochbehar and Jalpaiguri districts and group meetings in Purulia and Bankura districts during July and September 2005. It had only been advertising its schemes through local newspapers without considering the literacy level of the targeted population. The failure to create awareness among the eligible beneficiaries deprived the needy OBC beneficiaries of the opportunities to avail of the benefits of the schemes. Moreover, the Corporation did not organise any pre-sanction counselling camp at the district/ block level so as to educate the applicants. Audit analysis revealed that the processing of 40 *per cent* of 890 applications in six districts got delayed due to non-inclusion of age and address proof, father's/ husband's name, status of guarantor *etc.* in the applications.

While accepting the audit observations the Management stated (August 2006) that large number of leaflets were being distributed at the *Panchayat* level to make people aware of the schemes.

3.2.18 The Corporation had given priority to the 'Agriculture and Allied sector' in the allocation of assistance under the Annual Action Plan. The distribution of loan assistance to beneficiaries in different sectors in respect of loans disbursed during 2004-06, was as detailed below:

(Amount : Rupees in crore)

Sector	Amount disbursed		No. of beneficiaries	
	Target	Actual	Target	Actual
Agriculture & Allied	6.16 (37)	1.53 (21)	1064 (49)	200 (19)
Small business	4.06 (25)	4.19 (57)	636 (29)	702 (68)
Transport	3.20 (19)	0.99 (13)	90 (4)	37 (3)
Service	3.10 (19)	0.68 (9)	400 (18)	100 (10)
Total	16.52	7.39	2,190	1,039

(Figures in brackets indicate percentage of total)

* Total interest of Rs 88.52 paid on undisbursed amount less interest at the rate of three per cent per annum for 90 days on loans aggregating Rs 35.29 crore i.e. Rs 26.47 lakh

Core sector like agriculture got lower allocation of funds.

It would be seen from the table at prepage that though priority had been accorded to the 'Agriculture and Allied sector' in the Plan, the disbursement in this sector was poor, while the funds in excess of the target were disbursed to the 'Small Business sector'. The actual disbursement of funds and number of beneficiaries compared to the target decreased by 16 and 30 *per cent* respectively in the 'Agriculture and Allied sector', while the same increased by 32 and 39 *per cent* respectively in the 'Small Business sector'. The Management stated (August 2006) that the loans were disbursed to the beneficiaries as per their requirement as there was no bar to divert funds from one sector to other. The reply indicates that the AAP was prepared without considering the requirement of the eligible beneficiaries and that the targets fixed were arbitrary.

The achievement of the objective of empowering the needy poor women was far from the desired level.

3.2.19 With a view to inculcating the spirit of self-dependence among the OBC women, living below the poverty line, the Corporation implemented the 'Swarnima' / 'New Swarnima' schemes for providing loan assistance of up to Rs 50,000 at concessional rate of interest of four *per cent per annum.* Despite availability of funds, the Corporation provided financial assistance aggregating Rs 1.68 crore to only 344 women (8.82 *per cent*) against the target 3,900 women during 2001-06 due to failure to identify needy women at the grass-root level. The objective of empowering poor women was thus not achieved.

Deficiencies in the sanction and disbursement of loan

3.2.20 The *Panchayat Samities*/ Municipalities, jointly with the block level Inspectors of the Backward Classes Welfare Department, were required to undertake pre-sanction field inspections of the selected beneficiaries to ascertain the viability of the projects, financial and technical credentials of the beneficiaries to run the projects and capability of the beneficiaries or their guarantors to repay dues. Further, before disbursement of loans, the Corporation was required to ensure documentation of the loan agreements and hypothecation of assets and receipt of post dated cheques from the beneficiaries towards repayment of loans.

Audit scrutiny of 890 cases of sanction (36 *per cent*) involving loan of Rs 7.12 crore out of total 2,468 cases sanctioned during 2001-05 in six districts revealed the following deficiencies in the sanction and disbursement of loans:

(Amount : Rupees in lakh)

Sl. No.	Nature of deficiency	Number of deficient cases	Percentage to total test - checked cases	Amount of loan
1	Caste certificate from the competent Authority was not obtained	24	3	23.85
2	Proof of residence was not obtained	238	27	176.83
3	Credit worthiness of beneficiaries was not checked	789	89	598.05
4	Pre-sanction field inspection was not carried out	601	68	407.64
5	Age proof of beneficiaries was not obtained	441	50	322.14
6	Project viability was not examined	530	60	415.39

Sl. No.	Nature of deficiency	Number of deficient cases	Percentage to total test - checked cases	Amount of loan
7	Projects sanctioned without requisite trade licence	687	77	477.83
8	Disbursement of loan without ensuring documentation (e.g. non-execution of loan agreements and hypothecation, non-recording of post dated cheques in personal file, non-recording of hypothecation on Registration certificates and insurance documents for light commercial vehicles etc.)	878	99	705.83

Loan aggregating Rs 7.12 crore were disbursed to 890 beneficiaries without complying with pre-sanction appraisal/ pre- disbursement formalities.

It would be seen from the above table that the loans were sanctioned/ disbursed without completing the pre-sanction appraisal/ pre-disbursement formalities, which contributed to non-recovery of Rs 4.04 crore from 890 beneficiaries, representing 62 *per cent* of the total recoverable amount of Rs 6.49 crore. The Management assured (August 2006) to take corrective action so that these deficiencies would not recur.

Financial assistance extended to fake beneficiaries

3.2.21 Although it was vital to ensure that only genuine OBC certificate holders get assistance from the Scheme funds, the Corporation did not evolve any mechanism to ensure the genuineness of the certificates submitted by the beneficiaries.

The Corporation disbursed term loans aggregating Rs 2.16 crore to 275 beneficiaries in Malda district during 2000-06, of which Rs 13.21 lakh were released to 18 beneficiaries. Audit scrutiny of OBC certificates furnished by these beneficiaries along with the applications revealed that in the case of 18 beneficiaries, the certificates shown to have been issued by SDO, Malda, had overwritings and several had the same serial number. On this being pointed out (July 2006) by Audit, SDO, Malda to whom the matter was then referred stated (July 2006) that **the OBC certificates were forged and had not been issued by him to these 18 beneficiaries**.

Lax field enquiry led to disbursement of loans of Rs 13.21 lakh to 18 fake beneficiaries.

The Inspector of the Backward Classes Welfare Department, Malda during joint field enquiry of the eligibility of beneficiaries with *Panchayat Samity* had failed to point out these fake OBC certificate holders before forwarding their applications to the Project Officer-Cum-District Welfare Officer. While recommending these applications to the Corporation, the Project Officer had also failed to verify the genuineness of the beneficiaries in spite of the apparent discrepancies in serial numbers, overwritings *etc*.

The Management stated (August 2006) that the district authority of Malda had been instructed to enquire into the matter and send a detailed report to the Corporation immediately and that the matter had also been brought to the notice of the Backward Classes Welfare department for necessary action. No legal action was, however, initiated by the Corporation against the fake beneficiaries (September 2006). Moreover, the Corporation had not taken any action for verification of genuineness of beneficiaries in other districts to weed out similar fake cases, if any.

Micro financing scheme

3.2.22 In order to cater to the micro-financial needs of small entrepreneurs living below double the poverty line, the Corporation was implementing the micro financing scheme since 2001-02. Under the scheme, the Corporation disbursed loans up to Rs 25,000 per beneficiary through accredited NGOs/ SHGs which submitted proposals indicating the purpose, number of prospective beneficiaries and amount required.

Under the scheme credit upto 95 *per cent* of the fund required was provided (NBCFDC's share : 90 *per cent* and Corporation's share : 5 *per cent*) to the SHGs/ NGOs who contributed the balance 5 *per cent*. SHGs/ NGOs were required to repay the loan to the Corporation within three years in quarterly instalments along with interest at the rate of five *per cent per annum*.

3.2.23 In addition, NBCFDC had also introduced (October 2003) another scheme under micro financing, named 'Mahila Samriddhi Yojona' (MSY). Under MSY, loans upto Rs 25,000 per beneficiary are provided to women living below double the poverty line, either directly or through SHGs/ NGOs. Under MSY, 95 *per cent* of the project cost is financed out of NBCFDC's loan and the balance is contributed by the Corporation. The Corporation pays interest at the rate of one *per cent* to NBCFDC while it could recover interest at the rate of up to four *per cent* from the beneficiary.

The following points were noticed in audit with regard to implementation of these schemes :

Despite availability of funds, assistance was extended to 2,757 beneficiaries against target of 4,650 beneficiaries.

- Although 5,173 SHGs were already in existence in 39 blocks of four[4] districts, the Management had not identified the eligible SHGs out of those SHGs and made them aware of the scheme for financial assistance. The Corporation also did not prepare any district- wise data base of eligible beneficiaries.

- NBCFDC had released Rs 4.06 crore during 2001-06. Despite availability of funds, the Corporation disbursed loans aggregating Rs 1.63 crore to 2,757 beneficiaries only through 13 NGOs and 29 SHGs, against the physical and financial targets of 4,650 beneficiaries and Rs 6.03 crore respectively.

- The Corporation failed to popularise the scheme even after expiry of five years of its launch due to absence of an awareness programme as well as failure to identify the SHGs. The Corporation did not devise any system for disbursing the loans directly to the beneficiaries. The Management stated (August 2006) that the Department had since instructed the Corporation to cover more beneficiaries/ SHGs through NGOs or directly. The reply is silent as to why such action was not initiated earlier.

[4] Bankura, Purulia, Dakshin Dinajpur and Darjeeling

Only 1,106 out of 1,500 women beneficiaries were disbursed loans in two districts.

- Under MSY, against the physical target of 1,500 beneficiaries and financial target of Rs 1.90 crore for 2004-06, the Corporation disbursed Rs 69 lakh through four SHGs and one NGO covering 1,106 women only in two[5] out of 19 districts. The Management stated (August 2006) that all the district offices were being directed to give more emphasis to SHGs having 100 *per cent* women beneficiaries.

Due to inept implementation of the micro financing scheme and consequent failure to achieve targets, the Corporation had to refund Rs 1.55 crore to NBCFDC while it invested Rs 19 lakh in fixed deposits.

NGOs realised excess interest from the beneficiaries.

- Under the micro financing scheme, the Corporation allowed all the 13 NGOs to charge interest at the rate of nine *per cent per annum* on Rs 1.22 crore from 2,506 beneficiaries from December 2002 to March 2006, instead of the rate of five *per cent* prescribed by NBCFDC. Of these, two NGOs charged even higher rates of interest of 11.5 to 14 *per cent* from the beneficiaries. This vitiated the objective of supporting the poorest section of the OBC beneficiaries at low rate of interest, resulting in excess burden of interest of Rs 17.09 lakh on the beneficiaries during 2002-06.

  As per the agreements, the NGOs were allowed to repay the loans to the Corporation within a period of three years, while the beneficiaries were required to repay the loans to NGOs within two years, which lacked justification. This had ultimately benefited the NGOs at the cost of beneficiaries. The Management accepted (August 2006) the audit observation.

  Similarly, NBCFDC was to charge interest at the rate of one *per cent* under MSY from the Corporation, which in turn would charge interest at the rate of four *per cent per annum* from the beneficiaries. Scrutiny in audit revealed that one NGO (Kotalipara Development Society) in North 24-Parganas district disbursed loans aggregating Rs 67.10 lakh to 1,091 beneficiaries at the interest rate of 14 *per cent per annum* against the prescribed rate of four *per cent*. This ultimately benefited the NGO at an extra interest burden of Rs 10.74 lakh on the poor women beneficiaries. The Management accepted (August 2006) the audit observation.

Education loan

3.2.24 Under the Education Loan Scheme effective from 2001-02, the Corporation sanctioned loans up to rupees three lakh to meritorious students-belonging to backward class families with annual income of less than Rs 40,000 (rural areas) or Rs 55,000 (urban areas) for pursuing an entire professional or technical courses (Medical, Engineering, MBA etc.). The loan repayable in 60 equal monthly instalments after six months from the completion of the course carries interest of four *per cent per annum*.

[5] North 24 Parganas, South 24 Parganas

The coverage of eligible students was insignificant.

Against the physical target of 260 beneficiaries and the financial target of Rs 1.13 crore for 2001-06 the Corporation actually disbursed a meagre amount of Rs 16.95 lakh only to 13 beneficiaries leading to shortfall in achievement of physical and financial targets. This was due to lack of awareness among the students. The Board had directed (March 2003) the Management to publicise the scheme in educational institutions. The Corporation, however, neither used the media nor did it contact different educational institutions to popularise the scheme amongst the OBC students. The Management stated (August 2006) that action would be taken to popularise the education loan scheme.

Project linked training programme

3.2.25 To upgrade technical and entrepreneurial skills of the prospective beneficiaries for proper and efficient management of their projects to make them viable, the Corporation provides short-term project linked training programmes in different trades to the members of Other Backward Classes. As per the programme, 90 *per cent* of the training expenditure is met by NBCFDC through grant and 10 *per cent* is funded by the Corporation.

During 2001-06 the Corporation organised 29 courses of one to six months' duration through three NBCFDC approved organisations. The table below indicates the number of students to be sponsored (as per the norm fixed by NBCFDC) actually sponsored and trained during 2001-06.

Year	No. of courses	No. of students			Cost of training
		To be sponsored	Actually sponsored	Actually trained	(Rupees in lakh)
2001-02	1	30	12	12	1.70
2002-03	10	1040	318	225	8.44
2003-04	1	30	16	16	1.14
2004-05	3	110	77	77	7.95
2005-06	14	367	124	124	14.53
Total	**29**	**1573**	**547**	**454**	**33.76**

Development of technical/ entrepreneurial skills of beneficiaries was not achieved due to shortfall in sponsorship of requisite number of students.

It would be seen from the above table that the Corporation sponsored only 35 *per cent* (547) of the requisite number of students due to lack of pre-identification of eligible students. Further, 93 out of 547 students had dropped out for which no reasons were available on record. The Corporation did not maintain any record indicating the progress of training, performance of trainees, effectiveness of different courses as well as financial assistance extended to those trained beneficiaries. The Management stated (August 2006) that the district officers would be instructed to sponsor more candidates for training.

Marketing support to the beneficiaries

3.2.26 With the objective of assisting the artisans and craftsmen for marketing their products, NBCFDC encourages SCAs to take part in national level exhibitions as well as to organise exhibitions at the district and State levels. NBCFDC reimburses 100 *per cent* of the expenditure on these exhibitions.

Marketing support to beneficiaries was insignificant.

The Corporation did not organise any such exhibition during 2001-06. It participated in 16 exhibitions (including four national level exhibitions) against invitations received from 32 exhibition organisers. Audit noticed that only 19 beneficiaries participated in these exhibitions. There was nothing on record to indicate the value of products marketed by the beneficiaries through these exhibitions. Thus, the Corporation's effort to provide marketing support to the beneficiaries was insignificant.

Recovery Performance

3.2.27 The success of any financial institution depends on the promptitude and efficiency with which dues towards principal and interest are recovered to ensure timely repayment of dues to the principal funding agency (NBCFDC) as well as enable recycling of funds for extending further financial assistance. The position of recovery during 2001-05 is given below :

Recovery of dues substantially dipped from 46 *per cent* in 2001-02 to 31 *per cent* in 2004-05.

(Amount : Rupees in crore)

Year	Opening balance of dues	Demand for the year	Total Amount Recoverable	Amount Recovered (Percentage)	Closing balance of dues
(1)	(2)	(3)	(4)	(5)	(6)
2001-02	0.35	1.91	2.26	1.03 (46)	1.23
2002-03	1.23	2.98	4.21	1.71 (41)	2.50
2003-04	2.50	4.73	7.23	2.33 (32)	4.90
2004-05	4.90	4.48	9.38	2.89 (31)	6.49

In this connection the following points were noticed in audit-

- The percentage of recovery declined substantially from 46 in 2001-02 to 31 in 2004-05. As a result, the outstanding amount of Rs 35 lakh in 2001-02 mounted to Rs 6.49 crore in 2004-05, an increase of 19 times in four years, indicating ineffective recovery.

- The Company did not maintain any age profile of dues to prioritise efforts for the recovery of old dues.

- NBCFDC directed (March 2002) the Corporation to set up a recovery cell at headquarters' and district level. Though the Corporation belatedly set up a cell at headquarters' in August 2005, it did not monitor the recovery of dues. No such cell had been set up at the district level so far (September 2006).

No recovery was effected against dues of Rs 75.26 lakh.

- The Corporation had failed to effect any recovery from 198 beneficiaries against dues of Rs 75.26 lakh, while 264 beneficiaries had paid only one instalment against over dues of Rs 97.99 lakh.

- Out of the total dues of Rs 6.49 crore as on 31 March 2005, Rs 2.25 crore were recoverable from 137 beneficiaries who were extended loans between Rs 2.50 lakh and Rs 4.90 lakh for financing the cost of mini-truck, taxi etc. On field inspection (January 2005), the Corporation found that in most of the cases the vehicles had either been transferred to others on hire basis or were being run by hired drivers. As the beneficiaries had deviated from the terms and conditions of the loan agreement, the Corporation should take over the vehicles from the beneficiaries. As the Corporation failed to take any action in this regard, the recovery of Rs 2.25 crore was doubtful.

- In violation of the order (March 1998) of NBCFDC, the Corporation did not issue Beneficiary Loan Cards to the beneficiaries to oversee the utilisation of funds and recovery of dues.

- NBCFDC had sanctioned (August 2000) Rs 2.50 lakh in the first phase for computerisation of MIS so as to strengthen monitoring of recovery. The Corporation incurred Rs 2.63 lakh for computerisation and obtained reimbursement from NBCFDC. Against the subsequent sanction (February 2003) of Rs 2.50 lakh towards computerisation, the Corporation failed to draw the amount despite repeated instructions of the NBCFDC .

Thus, the recovery mechanism in the Corporation was deficient resulting in outstandings piling up. While accepting the audit observations, the Government/ Management stated (August 2006) that the recovery mechanism would be strengthened to improve the recovery position.

Post-disbursement monitoring mechanism

Post-disbursement monitoring both at the headquarters and district level was deficient.

3.2.28 In terms of the Government order (March 1998), the inspector of the department of Backward Classes Welfare along with the members of *Panchayat*/ Municipalities would carry out post-disbursement monitoring at least once in a month in each district. There was, however, nothing on record to indicate that any monitoring was conducted at the district level. The Board failed to periodically review the implementation of the ongoing schemes to ensure that the funds were utilised for specified purposes. It was only in August 2005 that post-disbursement monitoring was initiated by the Corporation on a selective basis. The monitoring mechanism of the ongoing schemes was thus inadequate. While accepting the audit observations the Government assured in ARCPSE meeting (August 2006) to strengthen the post-disbursement monitoring mechanism.

Impact of implementation of various schemes

Even after expenditure of Rs 29.50 crore the impact of implementation of schemes on beneficiaries was not assessed.

3.2.29 The objective of the various schemes implemented by the Corporation was to enable the beneficiaries to earn income on sustainable basis. NBCDFC directed (April 2001) the Corporation to engage some accredited institution to get the on going schemes evaluated so as to ascertain the impact of the schemes. The Corporation, however, did not engage any institution nor did it evolve any evaluation/ feed back system to gauge the impact of the schemes implemented.

Under the micro financing scheme, the Board of Directors had directed (September 2005) the management to approach some State level consulting body for conducting an evaluation study on the micro financing scheme. But the Corporation had not taken any action so far (September 2006). Even after expenditure of Rs 29.50 crore, the impact of the schemes was thus not known. The Management stated (August 2006) that action had since been taken to engage an accredited institution for evaluation of the scheme.

Internal Control

3.2.30 The following deficiencies were noticed in the Internal Control System :

Internal Control system was deficient in major areas of activities.

- The Corporation did not devise any system of giving receipts to the applicants for applications received for availing financial assistance so as to exercise control over applications received, processed, cancelled and pending at the end of any financial year.
- The assessment of funds' requirement was unrealistic.
- The Corporation did not have any system of evaluating whether the loan funds were spent for the specified purposes.
- The Corporation did not devise any mechanism to ensure the genuineness of the OBC certificates submitted by the beneficiaries.
- Performance of the NGOs was not evaluated.
- There was no recovery Cell at the district level.
- Beneficiary Loan Cards to oversee the utilisation of funds and recovery of dues were not issued.
- The Corporation had not reconciled the amount disbursed to the beneficiaries by the bank with those as per its records.
- Beneficiary-wise ledgers were not maintained and updated.

Internal Audit

3.2.31 The Corporation did not have an Internal Audit Wing. The firm of Chartered Accountants engaged for internal audit was only compiling the accounts of the Corporation. Important activities of the Corporation were not covered in internal audit and an important control element was thus missing.

The Management accepted (August 2006) the audit observations on the control mechanism.

Conclusion

The performance of the Corporation with regard to management of assistance extended to OBC beneficiaries was found to be sub-optimal due to the absence of a perspective plan, failure to identify eligible beneficiaries, inordinate delays in processing of applications, fixation of unrealistic targets, deficiencies in sanction and disbursement of loans, failure to generate awareness, lax monitoring and absence of an internal control system. The recovery system was deficient and follow-up with beneficiaries after disbursement of financial assistance was absent. All these resulted in poor coverage of eligible beneficiaries, short drawal of funds against sanction, diversion of scheme funds, poor recovery of dues and non-achievement of the objectives of the various schemes for OBC's of the State.

Recommendations

The Corporation needs to –

- **reorient its planning process by evolving a suitable strategy;**
- **prepare a database of eligible beneficiaries so as to ensure coverage of all the targeted beneficiaries in a phased manner;**
- **promote awareness of the OBC schemes available as well as introduce pre-sanction counselling;**
- **strengthen the procedures of selection, sanction and disbursement of loans;**
- **make the vocational training programmes effective to ensure employment opportunities;**
- **make efforts to improve the recovery position;**
- **strengthen the post disbursement monitoring mechanism;**
- **assess the impact of the implementation of the different schemes on OBC beneficiaries.**

The Government/ Management accepted (August 2006) the recommendations.