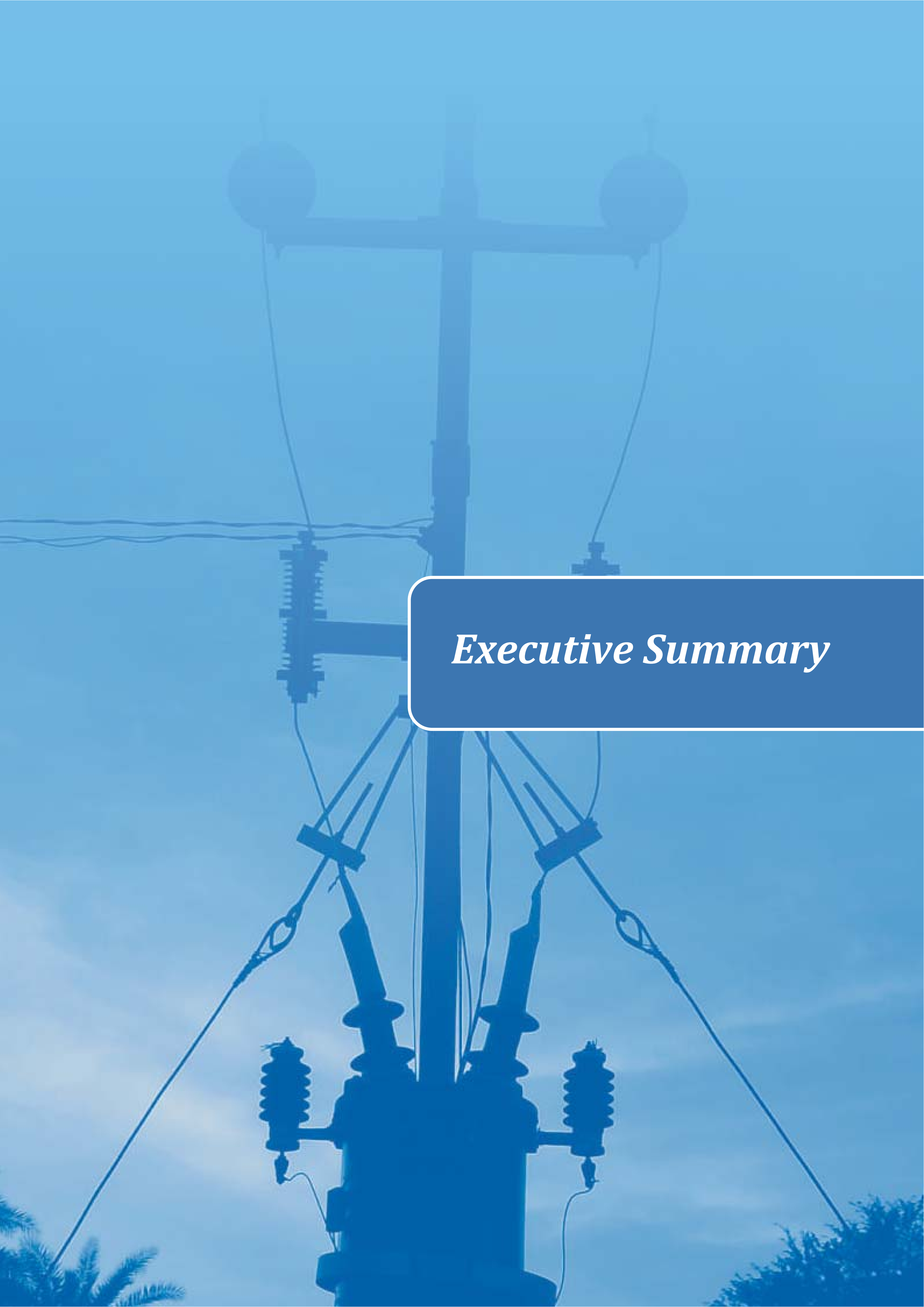
Executive Summary



Executive Summary

Government of India, Ministry of Power (MOP) launched (March 2005) Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) to accelerate the pace of village electrification. MOP subsequently, merged all existing rural electricity programmes of Government of India (GOI) with RGGVY. The main objectives of RGGVY were to:

- Electrify all villages and habitations,
- Provide electricity to all households,
- Give electricity connection to Below Poverty Line (BPL) families, free of charge,
- Accelerate rural development, generate employment and eliminate poverty through irrigation, small scale industries, cold chains, healthcare, education and Information Technology(IT),
- Bridge the urban-rural gap and provide reliable and quality power supply to rural areas.

The scheme was launched to fulfill the commitment of the National Common Minimum Programme (NCMP) of completing household electrification in 5 years, *i.e.* by 2009. The target for village electrification was 1,25,000 un-electrified villages and 7.8 crore rural households including free electricity connections to 2.34 crore BPL households by 2009.

At GOI level, MOP was the apex authority responsible for administration of the scheme. Rural Electrification Corporation Limited (REC) was the nodal agency for the scheme responsible for overall implementation including project scrutiny and appraisal, co-ordination, monitoring and release of funds. The scheme was to be further implemented by Project Implementing Agencies (PIAs), *i.e.* State power utilities (SPUs)/ electricity distribution companies, State Electricity Boards and Central Public Sector Undertakings (CPSUs).

RGGVY launched towards the end of X Five Year Plan (2002-07) was expected to continue in XI Five Year Plan (2007-12). During X Plan, 235 projects of a value of ₹ 9,733.35 crore were sanctioned for implementation while 341 projects amounting to ₹ 16,694.43 crore were sanctioned in XI Plan.

Performance Audit of RGGVY was conducted in 27 States. Out of 576 projects under implementation during X and XI Plans, 169 projects were test-checked covering the period from 2004-05 to 2011-12. Records were scrutinized at MOP, REC, State Governments, CPSEs, Districts, besides conducting a limited survey of villages and BPL beneficiary households.

HIGHLIGHTS

Formulation of scheme (Chapter 3 and 5)

(i) There were inconsistencies in the figures which formed the basis of the targets for un-electrified and electrified villages that MOP projected. Coverage of both electrified and un-electrified villages underwent a significant change. Unreliability of such data is a matter of concern as assurance on achievement of targets that were being reflected in various proposals and REC data, was difficult to obtain.

(Para 3.2)

(ii) MOP did not conduct feasibility study before launching the scheme, despite recommendations from the Standing Committee on Energy (14th Lok Sabha) that it should obtain updated statistics on rural electrification from States and modify the rural electrification programme in the light of updated statistics. MOP did not have complete information from all States even by September 2008, indicating that the basis of figures used for both X and XI Plan was not sound. It was not possible to draw an assurance that MOP had identified the number of electrified villages, BPL households, *etc.* after considering the impact and outcome of earlier schemes.

(Para 3.1, 3.2 and 3.3)

(iii) There was scope for preparing cost estimates to CCEA for approval more realistically, based on available information with MOP. Inadequacies in identification and estimation of un-electrified villages and BPL beneficiaries at the planning stage had the impact of variations in the cost estimates to the extent of ₹ 2,262 crore.

(Para 3.4)

(iv) None of the PIAs undertook a survey prior to formulating DPRs. For the BPL household data, in seven States, PIAs relied upon the data of Census of 2001 without considering growth in rural population/habitats/villages since 2001. In remaining States, PIAs collected BPL data from other sources. Out of 169 selected projects, DPRs in respect of 162 projects* were produced to Audit by REC, but important information / data like existing status of electrification in the

* Projects in respect of which DPRs were not submitted: Kaushambi, Jalaun, Mirzapur, East Sikkim, Sangli, Krishnagiri and Nagapattinam (seven projects).

district, estimated cost, year-wise phasing of work and PERT charts for project execution, *etc.* were not attached to DPRs. Out of 577 DPRs[†], 519 DPRs, constituting 90 *per cent* of total DPRs, had to be revised {amount-wise percentage revision being between (-) 61.49 *per cent* and (+) 269.29 *per cent*}.

(Para 3.7, 5.2 and 5.3)

(v) DPRs of 109 projects[‡] under RGGVY, in four[§] States, with an effective sanctioned cost of ₹ 6,266.71 crore, were prepared as per the scope of an earlier scheme (AEOLVOCH[**]) during 2004-05. However, action to revise DPRs of projects as per scope of RGGVY was taken belatedly during 2005-06 to 2011-12 by sanctioning supplementary projects in 51 out of 109 projects, at a cost of ₹ 8,312.38 crore.

(Para 5.1.1)

(vi) Rural Electricity (RE) Policy notified by MOP in August 2006 stipulated that all States were to prepare and notify RE Plans by February 2007. No State had notified RE Plan by February 2007. Further, MOP, while approving (February 2008) RGGVY in XI Plan, reiterated that the States should finalize their RE Plan in consultation with MOP and notify the same within six months. 25 out of 27 States had notified RE Plan as of August 2013. Delay in notification by these States ranged from 3 months to 73 months. Two States (Jammu and Kashmir and Sikkim) had not notified their RE Plan (August 2013).

(Para 3.6)

Financial Management (Chapter 4)

(vii) Analysis of the information available at REC in respect of 169 selected sample projects revealed that there was additional time taken by REC in release of funds to PIAs which ranged from 16 to 162 days in 71 projects, 16 to 182 days in 64 projects and 16 to 209 days in 86 projects in respect of 1st, 2nd and 3rd installments respectively. Both PIAs and REC were responsible for delays which impacted execution and project schedules.

(Para 4.2.1)

(viii) Against the total approval of ₹ 33,000 crore for X Plan and first two years of XI Plan by CCEA, allocation of funds during 2004-12 as per budget estimates and revised estimates was ₹ 31,338.00 crore and ₹ 27,488.56 crore respectively.

[†] There were two DPRs for Kokarajhar Project

[‡] Xth plan - 108 and XIth plan - one

[§] Bihar, Rajasthan, Uttar Pradesh and West Bengal

[**] Accelerated Electrification of One lakh Villages and One crore Households

MOP did not fully utilize the funds allocated under the scheme and released ₹ 26,150.76 crore to REC up to March 2012.

(Para 4.3.1)

(ix) As against ₹ 26,150.76 crore released by MOP to REC, the latter released ₹ 25,652.37 crore to PIAs upto March 2012 and PIAs had intimated utilization of ₹ 22,510.14 crore (20 May 2012). The status of release of funds by REC to PIAs and utilization by PIAs as of February 2013 was ₹ 26,034.65 crore and ₹ 24,547.58 crore respectively. Balances remaining unutilized with PIAs ranged from ₹1.47 crore to ₹375.07 crore in 19 States while PIAs reported excess utilization ranging from ₹ 3.64 crore to ₹ 115.13 crore in eight States. As substantial unutilized funds remained with PIAs, an amount of ₹ 337 crore towards interest earned by PIAs on unutilized funds remained to be remitted to the Government account as of August 2013 and thus, did not further the cause of RGGVY.

(Para 1.5, 4.3.2 and 4.5)

(x) REC did not link the terms of release of funds with achievement of physical targets[††] set under approved RGGVY projects. In Jammu and Kashmir and Mizoram, this resulted in release of 67 *per cent* to 70 *per cent* of the project cost to PIAs/contractors whereas the physical achievement against the released funds was less.

(Para 4.3.2)

(xi) PIAs, in four States, committed irregularities in maintenance of separate interest bearing bank account resulting in loss of interest of ₹ 7.10 crore. PIAs, in two States, treated interest of ₹ 49.83 crore earned on RGGVY funds as their own income which was not permissible.

(Para 4.4)

(xii) There were instances of diversion of funds, of ₹ 157.78 crore, for non-RGGVY purposes as RGGVY funds were mixed with general funds of the State Power Utilities (SPUs).

(Para 4.7)

Project execution (Chapters 5 and 7)

(xiii) The milestone-based project monitoring system stipulated that the project was to be awarded within three months of sanction of project. However, in 425 out of 576 projects, the time taken to award the project was more than three

[††] The Ministry of Finance, in December 2007, also emphasized linking the spending of funds with the achievement of physical targets so that effectiveness of the scheme may be ensured.

months. The maximum delay was upto 46 months (*i.e.* three years and 281 days) in two projects[‡‡]. The delay also led to cost escalation of projects. In test-checked cases in five States alone, the increase in cost amounted to ₹ 696 crore.

(Para 5.5.2)

(xiv) There were cases of undue favour and violation of rules and procedures in award of contracts. In the test-checked cases, 29 projects amounting to ₹ 548.61 crore were awarded to ineligible contractors in two States. Further, undue benefit of ₹ 114.40 crore was extended to contractors on account of permitting higher rates, non-deduction of taxes, *etc.* which also resulted in avoidable increase of project costs by that amount.

(Para 5.6 and 5.9)

(xv) Either CVC or REC guidelines were not followed in respect of mobilization advance released by PIAs. This resulted in blockade of funds amounting to ₹ 103.57 crore for periods ranging from 3 months to 42 months in eight States. Mobilization advance was also granted in excess of stipulated norms / contractual terms, amounting to over ₹ 29.61 crore in three States. States had to bear a financial loss of ₹ 58.33 crore in respect of 57 test-checked projects in 11 States[§§] on account of release of interest-free mobilisation advance amounting to more than ₹ 450 crore to contractors. The action was not financially prudent. PIAs were paying interest at the rate of 10-12 *per cent* on loans received from REC for the scheme while advances to contractors were interest free.

(Para 5.7)

(xvi) Despite delay by contractors in completion of projects in time, in 14 States, Liquidated Damages amounting to ₹ 166.40 crore were not levied.

(Para 5.5.3)

(xvii) Expenditure of ₹ 41.42 crore was incurred for ineligible works, payments for works not done or assets not created and unfruitful expenditure on assets not put to use.

(Para 5.8)

(xviii) RGGVY did not achieve its target of electrifying all villages or households by 2010, even after a delay of 24 months (upto March 2012). Achievement was 63, 27 and 44 *per cent* in respect of electrification of un-electrified villages, rural and BPL households respectively by March 2010. 100 *per cent* energisation

---

[‡‡] Malda and 24 Pargana in West Bengal

[§§] Arunachal Pradesh, Chhattisgarh,Gujarat, Madhya Pradesh, Maharashtra, Manipur, Nagaland, Sikkim, Uttar Pradesh, Uttarakhand, West Bengal had not been achieved for even X Plan projects, though five years had elapsed since the end of the Plan.

(Para 7.1 and 7.4)

(xix) Deployment for franchisees for ensuring revenue sustainability of RGGVY projects was mandatory; yet as of 31 March 2012, only 37,614 franchisees had been deployed in 17 States covering 1,75,655 villages out of 3,53,049 villages. This implied that franchisees were deployed in approximately half (49.75 *per cent)* of the villages. No franchisees were appointed in ten States, *i.e.* Andhra Pradesh, Arunachal Pradesh, Jammu and Kashmir, Jharkhand, Kerala, Manipur, Mizoram, Punjab, Sikkim and Tamil Nadu.

(Para 7.5.4)

Monitoring (Chapter 6)

(xx) Monitoring was not adequate and deficiencies were noticed in all three tiers of quality control mechanism. In 1^{st} tier, deficiencies were found in frequency, quality and in taking remedial action in response to the defects pointed out by Third party inspection agencies in their inspections.

(Para 6.2 and 6.2.1)

(xxi) 1^{st} stage inspection in 2^{nd} tier monitoring was not at all conducted/ partially conducted in nine States in test-checked projects. In addition, 2^{nd} stage inspection in 2^{nd} tier monitoring was either not at all conducted/partially conducted in 20 States. REC Quality Monitors (RQMs) appointed for 2^{nd} tier monitoring had pointed out shortcomings in 28 out of 98 test checked projects of XI Plan. Defects pointed out by RQMs were not rectified by PIAs of 21 of 28 test checked projects as on 30 September 2012.

(Para 6.2.2)

(xxii) MOP took no action with respect to 3^{rd} tier monitoring till July 2010. MOP passed on its responsibility to REC (August 2010) by entrusting the latter with the responsibility of appointment of National Quality Monitors (NQMs). Independence of both levels of Quality Monitoring (RQM and NQM) would have been better achieved if this was not carried out by REC- a single agency.

(Para 6.2.3)

KEY RECOMMENDATIONS

- ✓ *MOP may consider getting an independent survey conducted prior to implementation of new projects in XII Plan and the list of identified villages and estimates of beneficiaries revised to avoid duplication and ensure that the benefits of the scheme reach the intended and targeted beneficiaries in close coordination with States.*

- ✓ *MOP may like to get REC to exercise greater control over the scope of work and related estimates by devising suitable formats of monitoring reports which would help ensure that projects are taken up for sanction only if the PIA submits a DPR based on a detailed field survey and physical and financial estimates are reasonably accurate.*

- ✓ *MOP may consider instituting an accounting mechanism at all levels (MOP, REC and PIAs) that ensures real-time watch over the actual release and receipt of funds and interest earned on unspent balances.*

- ✓ *MOP and the nodal agency, REC may take immediate action to recover / adjust the interest earned by PIAs on capital subsidy kept in banks and RGGVY funds that were utilized for payment of State / local taxes, against project costs.*

- ✓ *MOP may, in close coordination with States, consider institutionalising a uniform/standard template for ascertaining progress of work at each significant level so that common and avoidable irregularities/deficiencies in contract management such as non-deduction of statutory dues, non-levy of liquidated damages and excess payments to the contractors are avoided.*

- ✓ *Results of review of State level coordination committee meetings may be asked to be regularly communicated to MOP by an identified target date, by the Chief Secretaries of States. Deficiencies may be followed up regularly so that this endeavour yields expected results in terms of increasing effectiveness of implementation and achievement of outcomes.*

- ✓ *MOP may critically review the existing mechanism and install additional safeguards specifically targeting achievement of quality and reliability in supply of power, collection of revenue with special emphasis on States where targets remained to be achieved.*

REMEDIAL ACTION TAKEN BY THE MINISTRY

Subsequent to the issue of draft performance audit report to MOP, Secretary (Power), in the exit conference held on 2 September 2013, acknowledged the audit observations and stated that they have considered all major issues pointed out while preparing the guidelines for continuation of RGGVY in the XII Plan.

While the remedial action taken by MOP is appreciated, there is scope for improvement and refinement of guidelines and procedures as highlighted in this report.