

Chapter-I : Introduction

1.1 Overview

Skill is the ability to perform a productive task at a certain level of competence. With an objective of enhancing the skill training capacity in the country, Union Cabinet approved the formation of National Skill Development Corporation (NSDC) (May 2008) to stimulate and coordinate private sector initiative in the skill development sector and National Skill Development Fund (NSDF) (November 2008) for attracting contributions from various Government sources, and other donors/contributors to enhance, stimulate and develop skills by various sector specific programmes.

In pursuance of the Cabinet decision, NSDC was incorporated as a 'not for profit' company, on 31 July 2008, under Section 25 of Companies Act, 1956 as a public limited company by Department of Economic Affairs, Ministry of Finance (DEA) with equity capital of ₹ 10 crore¹. It was conceived as a *Public-Private Partnership (PPP)* in skill development sector. NSDF was incorporated on 23 December 2008, as a trust fully owned by the Government of India, under the Indian Trusts Act, 1882, by DEA to act as the receptacle of funds for NSDC from Government sources, bilateral/multilateral and other agencies with initial corpus of ₹ 995.10 crore received from the Government of India. The position of funds received by NSDF from Government sources and funds disbursed (including equity) to NSDC was as follows:

Table 1: Position of funds received by NSDF and made available to NSDC

(₹ in crore)

Year	Funds received in NSDF from Government Sources	Funds made available to NSDC
2008-09	998.10	203
2009-10	Nil	Nil
2010-11	Nil	Nil
2011-12	502.28	104.95
2012-13	Nil	290.90
2013-14	1,311.60	1,073.99
2014-15	488.76	690.06
Total	3,300.74	2,362.90²

¹ ₹ 5.10 crore subscribed by private sector and ₹ 4.90 crore subscribed by Government of India.

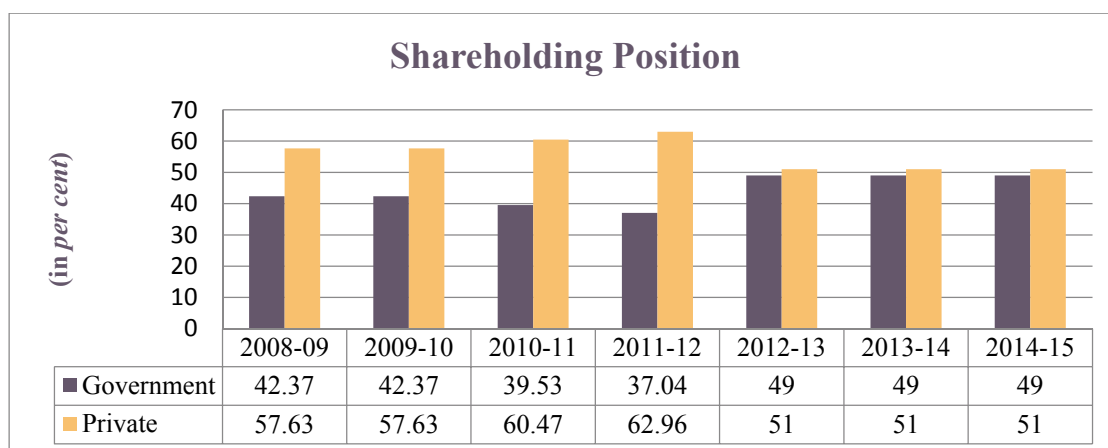
² Fund disbursement of ₹ 2,358 crore and Equity contribution of ₹ 4.90 crore.

1.1.1 Investment Management Agreement (IMA)

As per the Cabinet Approval (November 2008), NSDF was to enter into an 'Investment Management Agreement (IMA)' with NSDC, whereby NSDF was required to make available funds from its corpus for utilisation by NSDC in such schemes and programmes for skill development as per the policy framework agreed between NSDC and NSDF. The IMA was entered on 27 March 2009. The tenure of this agreement was three years, which was further extended upto March 2017.

1.1.2 Shareholding Pattern of NSDC

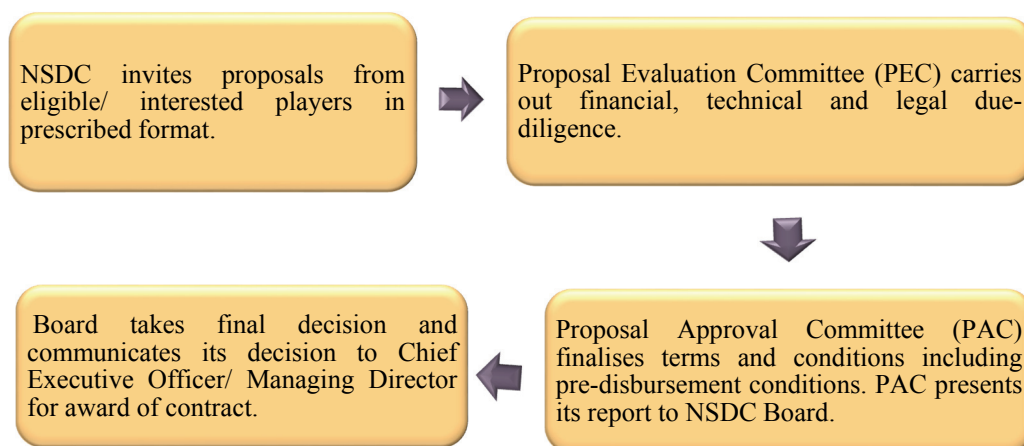
Authorised Share Capital of NSDC was ₹ 10 crore divided into one crore equity shares of ₹ 10 each. Details of shareholding position of NSDC are as follows:



Details of shareholders, as on 31 March 2015, is given in **Annexure-I**.

1.1.3 Process for disbursement of loans and grants

NSDC processed and approved proposals from eligible and interested players for equity/grant/loan support. The prescribed process of disbursement of loans and grants by NSDC is given on next page:



- PEC comprised of independent members from financial, technical and legal disciplines.
- PAC comprised of independent members from various disciplines not exceeding six and not less than three.

1.2 Audit Process

NSDC is not a government company as defined under the Companies Act, 2013, since the Government of India holds only 49 *per cent* of equity capital in it. Therefore, it is not under the CAG's audit purview in a normal course. However, during the transaction audit of Department of Economic Affairs, Ministry of Finance for the year 2013-14, it was observed that grants to the tune of ₹ 2,811.98 crore had been disbursed by the Ministry and other Government sources to NSDF during the period 2008-09 to 2013-14. NSDF had been further disbursing grants, from time to time, to NSDC for schemes and programmes of skill development. CAG has a mandate under Section 14 of CAG's (DPC) Act, 1971 to audit any body or authority that is substantially financed by grants or loans from the Consolidated Fund of India. Therefore, CAG conducted audit of NSDC under Section 14 of the C&AG's (DPC) Act, 1971.

Audit for NSDF was taken up at DEA as it was managing NSDF and was the administrative department till July 2014. It was noticed that relevant records had been transferred by DEA to the newly created Ministry of Skill Development and Entrepreneurship (MSDE) along with transfer of work. Thereafter the relevant records were examined at MSDE. The period covered under audit was 2008-09 to 2013-14. The status was further updated wherever necessary.

Audit at NSDF was carried out to check the formation, functioning and supervisory and monitoring mechanism. Audit at NSDC was conducted to check the function of providing financial assistance and monitoring of the funded projects/partners.

At NSDC, it was noticed that NSDC had approved 156 proposals and signed 124 agreements for providing financial assistance by way of loan/grant/equity participation upto March 2014. Out of 124 agreements, NSDC had provided assistance in 107 cases. Out of these, 31 cases were selected for scrutiny by audit (three relating to grants, 10 relating to grant and/or equity in addition to loan, 14 relating to loans and four cases of default in repayment of loan to NSDC). Details of sample cases selected for audit scrutiny are given in **Annexure-II**.

After completion of audit, Inspection Reports (IRs) on NSDF and NSDC were issued (16 March 2015) to the Secretary, DEA with a copy to Secretary, MSDE. Inspection Report on NSDC was also issued to NSDC. DEA did not reply to audit but forwarded the report to the newly created MSDE for reply. Based on the replies received (May 2015) from MSDE and NSDC, a Draft Long Paragraph was issued to DEA and MSDE on 17 August 2015 for their final comments. DEA again sent (25 August 2015) a reply stating that the work and records had been transferred to MSDE and reply would be furnished by MSDE. The final Reply of MSDE was received on 7 October 2015 incorporating reply of NSDC. These replies have been suitably incorporated in the report.

1.3 Acknowledgment

Audit wishes to acknowledge the co-operation received from Department of Economic Affairs (Ministry of Finance), Ministry of Skill Development and Entrepreneurship (MSDE) and National Skill Development Corporation (NSDC) during the audit process.