Chapter-IV : Functioning of NSDC

NSDC was providing financial assistance for skill development projects/ programmes/schemes/ventures. The financial assistance was provided by way of loans/grants/guarantees/sureties/investment in equity or any other hybrid financial instruments/underwriting or other risk sharing arrangements. Details of total financial assistance provided by the NSDC were as follows:

Table 3: Year-wise details of financial assistance provided by NSDC

(₹ in crore)

Year	Loan	Grant	Equity	Total
2009-10	4.99	2.16	0	7.15
2010-11	45.19	6.88	1.10	53.17
2011-12	113.65	12.94	10.25	136.84
2012-13	98.14	31.45	1.40	130.99
2013-14	234.51	63.16	7.63	305.30
2014-15	135.78	33.32	3.49	172.59
Total	**632.26**	**149.91**	**23.87**	**806.04**

The position of funded partners[5] by disbursement of loan/grants/equity was as given below:

Table 4: Position of Funded partners/projects

Year	Training Partners	Sector skill Councils	Innovation Projects	Special Projects	Total
2009-10	2	0	0	0	2
2010-11	13	0	0	2	15
2011-12	13	4	0	0	17
2012-13	16	6	1	0	23
2013-14	38	7	4	1	50
2014-15	40	10	4	0	54
Total	**122**	**27**	**9**	**3**	**161**

NSDC provided financial assistance in the form of soft loans/grants to partners to meet the training targets submitted by them in their proposal. As per the Funding Guidelines of NSDC, terms for the loans could provide for principle and interest repayment moratorium of period upto three years and interest rate was six *per cent.*

[5] To whom NSDC provided financial assistance for skill development activities.

The assistance extended by NSDC was subject to certain terms and conditions which were to be fulfilled by the partners. These terms and conditions were codified in the form of legal agreements between NSDC and the funded partners.

4.1 Non achievement of targets by funded partners

A due diligence mechanism for processing the applications of prospective funding partners was the basic requirement for a financial assistance system at NSDC. This should have been supplemented with a system for monitoring of compliance with commitments made by the partners. It would also involve monitoring of achievement of committed targets and regular and timely repayments of the loans along with the interest. However, during the scrutiny of the records provided to audit, instances of inefficiencies in these areas were noticed.

Position of training targets committed by the active[6] partner's vis-à-vis actual targets achieved by them during the last four years ending March 2014 was as under:

Table 5: Status of achievement of training targets

Year	No. of active training partners[7]	New Partners	No. of partners achieving training targets	No. of partners not achieving training targets	Per cent of partners not achieving targets (5/2-3*100)
1	**2**	**3**	**4**	**5**	**6**
2010-11	7	-	3	4	57.14
2011-12	22	-	5	17	77.27
2012-13	46	11	6	29	82.86
2013-14	81	9	23	49	68.05

It may be seen from the above table that majority of the partners did not achieve the committed training targets which were the basis for their financial assistance.

[6] As per NSDC, active partners are those funded partners which are reporting their progress in terms of annual training and placement targets.

[7] This shows active training partners cumulatively and include only those funded partners (shown in Table 4), who are covered under 'active category'. Year 2009-10 being the first year, the number of targets v/s achievement are not available.

4.1.1 Analysis of performance of Sample projects/partners

Audit selected a sample of 31 cases of projects/partners for detailed scrutiny as brought out at paragraph 1.2. It was noticed from scrutiny of Management Information System/Skill Development Management System of NSDC that training targets were not achieved by 18 projects/partners out of these 31 selected projects/partners upto 31 March 2014. Out of the total financial assistance of ₹ 633.45 crore given by NSDC up to 31 March 2014, these 18 projects/partners received financial assistance of ₹ 245.89 crore, which was 38.82 *per cent* of the total financial assistance. Further placement targets were not achieved by 16 of the projects/partners. Details are given in **Annexure-II.**

Review of loan disbursement documents of these partners revealed that Project Evaluation Committee as well as Project Approval Committee never raised any query on the training targets proposed by the partners in their proposal and accepted their proposals. Audit also observed that though the grant/loan agreements at the time of release of assistance clearly prescribed that the partners were to meet their training targets, NSDC could not enforce compliance of these commitments.

DEA was also aware of these infirmities. It was brought out in a file noting (February 2012) that, "*it appears that NSDC lacks a basic agenda to guide its operation and thus considers proposals without any guidelines for prioritisation or expenditure. The future road map for the organisation also appears to be amiss. In order to consider proposals in a systematic and transparent manner it is necessary for NSDC to evolve a pattern for entertaining proposals.*"

NSDC in its reply (October 2015) stated that:

- The due diligence of the proposal was carried out by independent third party agencies.
- As per the approach of the board, it was decided that NSDC would not change or modify the Business Plan of the borrower.
- The target given to NSDC was a total training target and not based on individual approved projects.
- The overall objective of the NSDC is to create training capacity in the country, fund scalability and sustainability of private enterprise, create a market

ecosystem for skill development, and meet the targets set out by the Government. NSDC has always exceeded the targets year on year since inception.

- All the manpower projections were made at a time when the economy was projected to grow at 8-9 *per cent* but the economy decelerated to 4 *per cent* growth in 2014. All industrial sectors experienced a slowdown in this period.

MSDE while accepting the audit observation, stated (July and October 2015) that NSDF had appointed IL&FS Trust Company as Monitoring Agent to monitor the functioning of NSDC. The IL&FS Trust Company had submitted its first quarterly report wherein they made certain observations to improve and strengthen the NSDC Model. The recommendations of IL&FS Trust Company as well as audit observations would be given due consideration to strengthen the system. GoI/NSDF would advise NSDC to institutionalise a system for regular monitoring of default and periodic review of end use of funds. NSDF has advised NSDC to put all data on training and placement in public domain for total transparency.

Replies of NSDC and MSDE need to be viewed in light of the following facts:

- A robust due diligence process would include identification and examination of the associated risks for achievement of projected targets, on the basis of which financial assistance is planned to be given, which was not being done properly at NSDC. Further, the Business Plan of the funded partners would have been accepted only after necessary risk mitigation action.
- Audit has commented upon non achievement of the agreed training targets by funded partners to whom financial assistance was provided by NSDC and achievement of these targets by individual funded partners was part of their agreement with NSDC. Further, numbers of training targets achieved needs to be viewed in light of the audit comment in paragraph 4.2 below regarding monitoring mechanism at NSDC.
- Reply of NSDC contains inherent contradiction as on the one hand NSDC had replied that they have exceeded their annual training targets and on the other they had quoted decrease in the GDP growth rate as a reason for non-achievement of targets.
- Reply was silent on action taken to ensure compliance of the terms of assistance by these partners, whereas necessary action as per contractual terms should have been taken against the partners who failed to abide by the contractual obligations.

4.1.2 Analysis of cases with default in repayments

Audit observed that in four cases, apart from failure to achieve training and placement targets, there was default in repayment of loans also. The details of these cases are as under:-

(i) GRAS Hospitality Services Limited, New Delhi (GRAS)

- Audit noticed that ₹ 9.50 crore was released in 2010-11 and ₹ 7.50 crore was released in 2012-13 to GRAS by NSDC as Loan. There was outstanding principal amount of ₹ 3.24 crore (as on September 2014 as reported by NSDC).
- Due diligence project consultants[8] had expressed various concerns on areas including compliance with other Government schemes being implemented by GRAS, compliance with skill development regulations and issues relating to proposed organisation model.
- GRAS set up only 46 Skill Development Centres (SDCs) as against the targeted 160 SDCs and did not open any Skill Development Institutes (SDIs) as against the target of 40 SDIs till 2013-14.
- Management Audit[9] report of GRAS (November 2012) brought out issues like failure of internal control mechanism in GRAS, non-periodical verification of fixed assets, poor performance in training and placements, poor fund management by GRAS were noticed. But on mere assurance of GRAS that these issues would be resolved, these points were closed.

(ii) Everonn Skill Development Limited, Chennai (Everonn)

- Equity contribution agreement and loan agreement with Everonn were signed in March 2011 and first installment of loan of ₹ 41.76 crore was disbursed in April 2011. There was outstanding principal and interest amount of ₹ 26.49 crore (as on September 2014 as reported by NSDC).
- During the review of proposal documents, the due diligence project consultants had expressed various concerns on areas including non-submission of formal agreements and training locations, no due diligence on corporate compliances, gaps in documentation and existing losses.

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[8] Due diligence project consultants were the independent consultants appointed by NSDC to evaluate the applications/ proposals submitted by the applicants/proposers, for legal, technical and financial due diligence.

[9] Management Audit of funded partners had been conducted by CA firms, appointed by NSDC. All partners were to be audited at least once every two years.

- Actual number of training centers opened by Everonn was low as compared to the proposal. Further, set-up date of most of the training centers was prior to the date of disbursement of loan.
- No management audit was conducted in case of Everonn. It even stopped submitting monthly and quarterly progress reports from September 2012. Further, it was also observed that the company was under liquidation.[10]

(iii) Jobskills Solution Private Limited, Bengaluru (Jobskills)

- Loan agreement was signed on 11 April 2011. First installment of ₹ 4.07 crore was disbursed to Jobskills in May 2011. There was outstanding principal amount of ₹ 57.07 lakh (as on September 2014 as reported by NSDC).
- Due diligence project consultants had expressed various concerns on areas including lack of clear strategy, lack of clarity over student selection process, lack of clarity over tie-up details with partners, lack of experience in the sector and lack of clarity over promoter's contribution.
- Management audit report of Jobskills (October 2012) revealed that very short duration courses were held, company had achieved only about one third of its training target at that time and had almost negligible placement record in first 15 months of its operations.

(iv) Laqsh Job Skills Academy Private Limited, Bengaluru (Laqsh)

- Loan agreement was signed between NSDC and Laqsh in April 2011. Accordingly, ₹ 2 crore as first installment of loan was disbursed in July 2011. There was outstanding principal amount of ₹ 18.75 lakh (as on September 2014 as reported by NSDC).
- Due diligence project consultants had expressed various concerns on areas including lack of clarity over student selection process, lack of clarity over placement strategy, lack of supporting documents for various statements made in the proposal.

Analysis of these four cases revealed that there were inefficiencies at various stages of providing financial assistance to partners and there was inadequate action in ensuring compliance of the obligations by the partners.

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[10] Source : www.mca.gov.in/company/master data

NSDC replied (October 2015) that:

- For GRAS, NSDC has taken necessary action and the proposal has been restructured. GRAS has started paying their due interest after restructuring.
- For Everonn, it has paid back ₹ 20 crore of outstanding amount and has committed to pay balance obligation. Everonn has been taken over by another company.
- For Jobskills, notice for non-compliance of provisions of agreement has been issued.
- For Laqsh, the outstanding amount has been repaid.

NSDC further replied (October 2015) that the PAC has deliberated on the issues raised in due diligence and has made recommendation after considering all factors. Their decisions have been recorded with reasons. Subsequently, NSDC has monitored the projects, taken appropriate actions including restructuring and continues to follow up vigorously on repayment of arrears, where applicable. MSDE while accepting the audit comments stated (July 2015) that audit observations would be given due consideration to strengthen the system.

Reply of NSDC needs to be viewed in the light of the fact that the due diligence consultants raised various issues while processing the proposals but rather than taking mitigating action before approval of financial assistance, the issues were dealt with by incorporating provisions in the agreements. In addition, the mechanism of ensuring fulfillment of the contractual obligations itself by NSDC was weak.

Audit also noticed that NSDC took corrective action in these four default cases after audit observations were issued in November 2014.

4.1.3 Failure in proper utilisation of Grant

Audit noticed that Sasakawa India Leprosy Foundation (SILF) sent its proposal to NSDC for grant of ₹ 73.60 lakh for skill development training of 350 youths from 100 leprosy affected colonies in five States[11] in three sectors i.e organised retail,

[11] Bihar, Odisha, Maharashtra, Madhya Pradesh and Uttar Pradesh

hospitality and Information Technology Enabled Service or Business Process Outsourcing. The project duration was of one year. It was also proposed that the training providers would assure 75 *per cent* placement and SILF would monitor the trained youth for initial three months of their placement. The grant agreement with SILF was signed in July 2013 and the full amount of grant ₹ 73.60 lakh was released in the same month.

NSDC Funding Guidelines *inter alia* provided that for 'not-for-profit' projects/ proposals, the business model should be for 10 years, no. of persons trained should be minimum 50,000 over 10 years and promoter contribution should be minimum 15 *per cent* of the investment requirement. The proposal of SILF was for one year for training of 350 youths. Further, the condition of minimum promoter contribution was also relaxed by the NSDC board on the basis of PAC recommendations. Thereafter, NSDC extended (August 2014) the project duration by eight months i.e. till March 2015 and also expanded the scope of project from five states to nine states. Audit observed that ₹ 52.57 lakh were lying unutilised with SILF as on 31 March 2015.

NSDC vide its reply (October 2015) explained the challenges faced and reasons for delay in the project. However, the reply was silent about status of the project and non-utilisation of fund even after two years of release.

4.2 Monitoring of funded projects/partners by NSDC

As per Financial Management and Procurement Manual of NSDC, the funding partners were required to submit quarterly progress reports on activities carried out and status of the project progress. In addition, NSDC was also to appoint a Project Monitor for undertaking on-going monitoring of projects awarded by NSDC. It had also prepared a monitoring mechanism for skill development partners. Audit, while reviewing the systems and procedures established to monitor and ensure compliance by the funding partners with the contractual terms, noticed the following:

4.2.1 Site Visits

A monitoring system with component of regular site visits and verification at the training center level in order to check establishment and functioning of training centers planned and shown as functional by training partners, to check records related to enrollment of trainees, training provided, feedbacks received, records of placements etc. was important. This was significant as many of these centers were reported to be established in far-flung areas across India. Year wise details of site visits by project monitor consultant and NSDC team are as follows:

Table 6: Summary of site visits done by Project Monitor Consultants and NSDC

Year	Total no. of Funded Partners	Project Monitor Consultant		NSDC team	
		No. of Funded Partners	Visits	No. of Funded Partners	Visits
2011-12	22	5	5	-	-
2012-13	46	14	22	-	-
2013-14	81	13	19	22	55

Analysis of these details revealed that regular site visits were conducted by NSDC only in 2013-14. Coverage of centers in site visits by Project Monitors was also low i.e. site visits covered 16 *per cent* to 30 *per cent* of the funded partners from 2011 to 2014. Further review of the site visit reports submitted by Project Monitor Consultant and NSDC revealed the following:

- Format of site visit reports provided the information for the assessment of infrastructure, training content and methodology of providing training etc. for the training center visited. However, the format did not include the information relating to the verification of data in respect of the people trained and placed.
- Assessment of the centers visited was absent in some site visit reports submitted by the consultant.
- From the reports submitted by NSDC team after site visits, it was observed that:

Table 7: Summary of analysis of site visits reports

<table>
<tr><th>No. of Cases</th><th>Observation</th><th>Implication</th></tr>
<tr><td>10</td><td>Non site visits shown as Site Visits</td><td>Cannot be treated as Site Visit</td></tr>
<tr><td>10</td><td>Reports submitted were minutes of meetings without information/assessment of Centres</td><td rowspan="4">No Assurance for their correctness</td></tr>
<tr><td>6</td><td>Reports not provided to Audit</td></tr>
<tr><td>25</td><td>Date of Site Visit not indicated</td></tr>
<tr><td colspan="2">Majority of Reports did not have any verification in form of signature of person visiting or else</td></tr>
</table>

NSDC replied (October 2015) that based on the fact that random sampling is an established norm of monitoring and data gathering by NSSO, the Board of NSDC had approved the scientific methodology of monitoring sampling based on recommendations of internationally reputed consultants and executed by a third party. In addition site visits were also made by NSDC staff.

Reply needs to be viewed in light of the fact that number of site visits carried out by the monitoring consultants were low, NSDC itself started the site visits only in 2013-14, there too, major lacunae were noticed in the way the site visit reports were submitted and an important element of verification of the claims of the partners regarding training and placement was not indicated in the site visit reports.

4.2.2 Management Audit of Projects/Partners

As per Management Audit programme of NSDC, all partners were to be audited at least once every two years and no more than once every six months who had completed one year of operation. Management Audit was conducted by Chartered Accountant firms, appointed by NSDC. Analysis of the table revealed that in two cases (BABLE and IIGJ), management audit was conducted very late i.e. after more than three years of operation. In one case i.e. Everonn, no management audit was conducted, Audit analysis of the management audit reports of the selected cases (details in **Annexure-IV**), revealed the following:

Table 8: Summary of analysis of Management Audit reports

Major Issues Noticed	Funded Partners
Number of people trained and placed were much below the target	IIGJ, I-SKILL, CREDAI, Future sharp
Non conducting of Internal Audits, Weakness in Internal Controls and Non verification of fixed assets	IIGJ, Gram Tarang, I-SKILL, Future sharp
Non-maintenance of separate bank account for NSDC funds	BABLE
Non booking of funds released by NSDC in their accounts	IIGJ

Scrutiny of these observations reflected that important issues regarding performance of partners, internal and financial controls etc were raised in the management audit reports. However, majority of these reports were closed on mere assurance given by the funded partners. Further, some of the reports brought out the risks pertaining to non-availability of charge in favour of NSDC for assets created out of funds received from NSDC and absence of easy exit clause for equity participation by NSDC. However, as brought out in the paragraphs 4.1.1 and 4.1.2, required action on the part of NSDC to enforce the contractual obligations was inadequate.

NSDC replied (October 2015) that learning from the shortcomings of the system and the observations of the audit would be incorporated in the monitoring process.

4.3 Remuneration of the CEO of NSDC

In the sixth Board meeting (April 2009), a remuneration committee for fixing remuneration for staff of NSDC in terms of Schedule XIII of the Companies Act, 1956 was formed. In the 13th Board meeting (March 2010), Managing Director and the Chief Executive Officer (CEO) of NSDC was appointed with fixed salary of ₹ 1.07 crore per annum and an yearly variable bonus as performance incentive of ₹ 26.80 lakh.

It was noticed that NSDC was a not for profit company in PPP mode with significant Government shareholding and was functioning from the taxpayer's money only for a public purpose. Therefore, parallel could be drawn with the remunerations being paid by public sector entities. An analysis was carried out of the remuneration fixed for the CEO of NSDC with remuneration being paid to the Managing Director (MD) of ONGC, a Maharatna company having scale of operations and responsibilities much larger than NSDC. It was observed that the remuneration of MD of ONGC was ₹ 45.50 lakh in 2010-11. Compared to this, the remuneration package for CEO at NSDC was much higher and needed justification.

MSDE stated (October 2015) that NSDC would be advised to take up the matter relating to remuneration to the Board of NSDC for further deliberation taking into account the observations of audit and comments of Government of India and take appropriate action.