Executive Summary

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1. Introduction

National Skill Development Fund (NSDF) and National Skill Development Corporation (NSDC) were created after approval of the Union Cabinet to stimulate and coordinate private sector initiative in the skill development sector**.** NSDC was formed (31 July 2008) as a "not for profit" public company with limited liability under Section 25 of the Companies Act, 1956 with an equity capital of ₹ 10 crore, of which 51 *per cent* (₹ 5.10 crore) and 49 *per cent* (₹ 4.90 crore) were subscribed by the private sector and Government of India respectively. It was conceived as a Public Private Partnership (PPP) in the skill development sector. NSDF was incorporated (23 December 2008) as a trust, under the Indian Trusts Act, 1882, by the Department of Economic Affairs (DEA), Ministry of Finance, to act as the receptacle of funds from Government sources, bilateral/ multilateral and other agencies. NSDF received ₹ 3,300.74 crore, as on 31 March 2015, from the government sources.

NSDF was to examine the Annual Work Plan of NSDC and sanction funds against the work plan. Since inception, NSDC had received funds of ₹ 2,362.90 crore upto 31 March 2015 from NSDF for execution of schemes and programmes for skill development.

Government of India vide notification dated 31 July 2014 transferred the work of NSDF and NSDC from DEA to the Ministry of Skill Development, Entrepreneurship, Youth Affairs & Sports and subsequently to a newly created Ministry of Skill Development and Entrepreneurship (MSDE).

2. Significant Audit Findings

- NSDF was created to act as a receptacle for financial contributions by Government/Government entities, multilateral and bilateral and private sector. However, since inception, NSDF received funds from Government sources only.

(Para 2.1)

- NSDC was conceived to be "private sector led" with Government shareholding of less than 51 *per cent* to prevent it from converting into a Government company so as to dispense with CAG audit, guidelines of Department of Public Enterprises and other Government norms and guidelines. It was designed as a Public Private Partnership with funding and participation from both the Government and Private Sectors. However, NSDC had been working with taxpayer's money only since its inception in 2008. There was 99.78 *per cent* financial stake of the Government in NSDC with 49 *per cent* equity ownership. However, Government's ownership rights were not commensurate with the Government's financial exposure in NSDC. NSDC was also kept out of the parliamentary oversight over its functioning.

(Para 2.1)

- Though the Government was the single largest shareholder in NSDC and was the sole contributor in NSDC's finances, its role in decision making had been limited due to minority representation on the board of directors of NSDC.

(Para 2.2.2.1)

- Status of NSDC was changed from a public limited company to a private limited company in 2011, which further weakened the governance mechanism of NSDC.

(Para 2.2.2.3)

- Though the Cabinet approval and the trust deed of NSDF prescribed a supervisory role of NSDF over NSDC, the detailed contours and modalities of exercising this role were not clearly defined. NSDF was ineffective in its supervisory role. Further, there were several instances when NSDC also effectively denied the supervisory role to NSDF.

(Para 3.1.1)

- Annual work plan and budgetary requirements were important tools by which NSDF was to exercise its supervisory control over NSDC and funds were to be released after their due scrutiny and approval. There were delays in submission of these documents and when they were submitted, review of the projects was not undertaken properly by NSDF.

(Para 3.1.2)

- Activities of NSDC of providing loans to entities were covered under the definition of Non-Banking Financial Company (NBFC). RBI is the regulator of NBFC sector in India. DEA persuaded RBI to exempt NSDC from its regulation on the premise that this work was performed by NSDF. However, no regulatory oversight was provided by NSDF. This regulatory role was outsourced to a private agency in November 2014. Carrying out the task of micro-prudential regulation was an important regulatory function which inherently included enforcement mechanism. Appointment of a private agency for carrying out this regulatory task, on the lines of the one performed by RBI, after taking it out of RBI's domain lacked justification.

  A private agency, IL&FS Trust Company Limited, was appointed (November 2014) to do micro prudential regulation of NSDC. It had an apparent conflict of interest, as it was part of a business group whose subsidiary company was sanctioned with funding of ₹ 159 crore by NSDC in 2010-11 and disbursed ₹ 89.97 crore upto March 2015. Further, the appointment process was also irregular with restrictive pre-qualification criteria and infirmities in the bid evaluation process.

(Para 3.2)

- NSDC provided financial assistance to partners for meeting their agreed training targets. It was observed that in the years 2010-11 to 2013-14, the percentage of partners, who had not achieved training targets were 57, 77, 83 and 68 respectively. Majority of them also could not achieve the placement targets for the trained persons. Audit selected a sample of 31 cases for detailed scrutiny where it was observed that 18 partners could not achieve their training targets and 16 partners could not achieve their placement targets. In addition, four partners also defaulted in repayment of loans to NSDC.

(Para 4.1 and 4.1.1)

- There were instances of lack of proper due diligence in considering the proposals for financial assistance. Training targets proposed in the financial assistance proposals were not questioned during processing the cases for approval.

(Para 4.1.1 and 4.1.2)

- The monitoring and control mechanism in NSDC over the funded partners was weak. Number of site visits carried out by the monitoring consultants was very 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 prepared. Further, the management audit reports of the funded partners brought out the issue of poor performance of partners, lack of proper internal and financial controls and issues with their functioning etc. but audit could not find evidence of effective corrective action on these findings.

(Para 4.2)