Chapter-II

2. Reviews relating to Government companies

Haryana Scheduled Castes Finance and Development Corporation Limited

2.1 Disbursement, utilization and recovery of financial assistance

Highlights

Haryana Scheduled Castes Finance and Development Corporation Limited (Company) incorporated in January 1971 to ensure socio-economic and educational upliftment of the Scheduled Castes Community was able to cover only 46 *per cent* of SC families despite spending Rs. 173.58 crore since inception. Besides no evaluation studies were conducted to determine the benefits derived by the beneficiaries.

(Paragraphs 2.1.1 and 2.1.30)

The objective of the scheme of upliftment of the Scheduled Caste Community was defeated due to high incidence of disbursement of subsidy to ineligible beneficiaries resulting in low coverage of targeted group. There were several instances of diversion of subsidy money for disbursal as margin money bearing interest (Rs.13.35 crore).

(Paragraphs 2.1.7 and 2.1.21)

The Company failed to achieve physical as well as financial targets during 1999-2003. During 2003-04 the Company unauthorisedly reduced the margin money from 25 to 10 *per cent* to achieve its targets. Reduction of margin money not only saddled the beneficiaries with additional liability of interest on bank loan (Rs. 2.56 crore) but the role of the Company in economic upliftment of Scheduled Castes Community was also diluted to that extent.

(Paragraphs 2.1.13 and 2.1.16)

The Company delayed its recommendations for loans in 65 *per cent* cases. It took 21 to 366 days against the stipulated time of 20 days. Similarly 73 *per cent* of the margin money/subsidy cheques were sent late to the banks adversely affecting disbursal to the beneficiaries. There was no system to analyse delay in sanction of loans or to monitor timely disbursement thereby impacting the efficiency of the scheme.

(Paragraphs 2.1.10 and 2.1.11)

Recovery performance was dismal at 17 to 22 *per cent* of the total amount recoverable. Consequently, recycling of funds was adversely affected, which in turn affected wider coverage of beneficiaries.

(Paragraph 2.1.32)

The Company's inability to motivate the Scavenger/Dependents to form SHGs resulted in non-implementation of the scheme and the Company refunded (March 2003) amount of Rs. 1.18 crore advanced to it by NSKFDC meant for providing assistance to safai Karamcharis/ dependents.

(Paragraph 2.1.28)

The Company could carry out physical verification of assets of only 11.6 *per cent* of the beneficiaries during 1999-2004 in one out of six district offices. Out of these assets of 67 beneficiaries did not exist.

(Paragraph 2.1.29)

Introduction

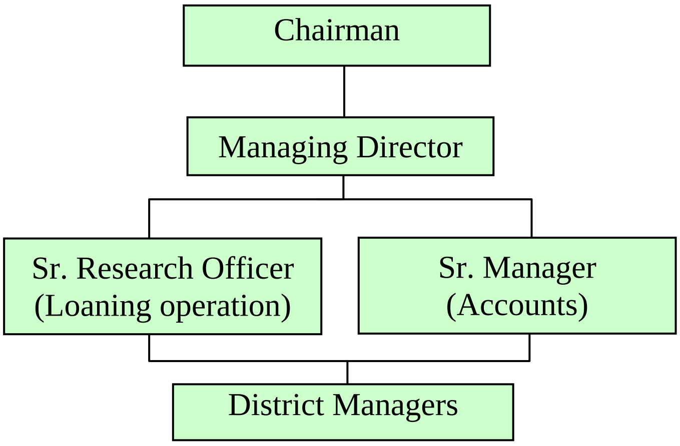
2.1.1 Haryana Harijan Kalyan Nigam Limited (Company) was incorporated in January 1971 as a wholly owned Government Company (renamed Haryana Scheduled Castes Finance and Development Corporation Limited in March 2000) with the objective to undertake the task of socio-economic and educational upliftment of the Scheduled Castes (SCs) community in the State by extending financial assistance. The Company has, however, not rendered any assistance to the community for their educational upliftment.

The State Government recognises 37 Castes as SCs in the State. As per 2001 census, Haryana State had a total population of 2.11 crore. Of this, SC population was 40.91 lakh (19.39 *per cent*). This included 32.11 lakh rural and 8.80 lakh urban SC population, comprising 6.82 lakh families[*] (Rural: 5.35 lakh, urban: 1.47 lakh). As per survey conducted during 1997-98, SC families living below poverty line were 3.67 lakh (Rural 3.11 lakh; urban 0.56 lakh). The Company extended financial assistance of Rs. 173.58 crore to 3.14 lakh SC families (46[$] *per cent*) under various schemes since inception i.e. January 1971 to March 2004.

[*] This has been worked out taking family as of six members.

[$] Based on 6.82 lakh SC families as per 2001 census.

The organisation chart of the Company relating to disbursement, utilization and recovery of financial assistance to SCs is given below:



During 1999-2004, five incumbents held the charge of Managing Director (MD). As per Government of India (GOI), Ministry of Welfare recommendations (February 1996) chief executives of various Corporations implementing the welfare programmes for SCs must be appointed for a minimum tenure of three years. Out of five MDs, appointed during 1999-2004, only one MD held office for three years. The tenure of other four MDs ranged between seven days and 10 months in violation of GOI's recommendations. Frequent changes impeded the performance of the Company as discussed in the succeeding paragraphs.

Scope of Audit

2.1.2 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1994-95 (Commercial), Government of Haryana. The Committee on Public Undertakings (COPU) discussed the review and its recommendations contained in 43rd Report were presented to the State Legislature on 22 January 1998. The COPU discussed (September/December 2000) Action Taken Notes (ATNs) on the recommendations and settled the review on the basis of assurances given/compliance by the management/Government.

The present review conducted during November 2004 to March 2005 covers the performance of the company with regards to disbursement, utilisation and recovery of financial assistance in six* (32 *per cent*) out of 19 districts during 1999-2004 under following schemes:

- Bank Tie-up scheme,
- Construction of Dwelling-cum-shed scheme,

* Ambala, Jind, Kaithal, Karnal, Sirsa and Yamunanagar.

- Direct Loaning/Loans under National Scheduled Castes Finance and Development Corporation (NSFDC) scheme, and

- National Safai Karamcharis Finance and Development Corporation (NSKFDC) Scheme.

The sample selected constitutes 40 *per cent* of the total number of beneficiaries as well as amount of total financial assistance provided. Audit findings were referred to the Government/Company in May 2005 and discussed at a meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 1 September 2005, which was attended by the MD of the Company. Views of the company were considered while finalising the review.

Audit objectives

2.1.3 The audit objectives of the review were to ascertain whether:

- the Company planned and executed its activities to successfully cover the entire targeted population in an effective and efficient manner; the Company periodically reviewed the impact of its activities and took remedial measure wherever required;

- the financial assistance provided to the targeted groups was in consonance with the guidelines issued by Government of India/State Government and NSFDC/NSKFDC and there was no diversion for other purposes or to ineligible beneficiaries;

- the sector wise targets set for loans, margin money, subsidy and bank loans were achieved and whether there were delays in processing the cases at various stages of scheme implementation;

- the monitoring system evolved by the Company was qualitatively adequate and effective enough to achieve the desired objectives in an efficient and effective manner;

- the Company was able to monitor and steer the upliftment process to ensure timely recovery of loans so as to recycle resources for other eligible beneficiaries; and

- the Company was sensitive to the inherent risks associated with its activities and had devised and put in place adequate and robust system of internal control.

Audit criteria

2.1.4 Following audit criteria were adopted:

- eligibility norms/quantum of financial assistance;
- adequacy of financial assistance vis-à-vis project cost;
- achievement of physical and financial targets by the Company;
- utilisation of available funds without allowing diversion and misutilisation of funds;
- compliance of guidelines issued by GOI/State Government and NSFDC; and
- compliance of terms of the agreements executed with beneficiaries.

Audit methodology

2.1.5 Audit followed the following methodologies:

- analysis of Company's procedure in respect of disbursement, utilisation and recovery of financial assistance. For this the Audit scrutinised the Memorandum and Articles of Associations, minutes/agenda notes of the meetings of Board of Directors, guidelines issued by GOI/State Government, NSFDC, NSKFDC and loan agreements with beneficiaries, etc;
- analysis of data in respect of disbursement, utilisation and recovery, available with the Company and other relevant source. For this, Audit scrutinised monthly progress reports/Annual Action Plans, annual budgets, financial statements of the Company and Below Poverty Line (BPL) survey list available with the respective Additional Deputy Commissioner (ADC); and
- a questionnaire seeking answers to various queries was given to the Company and the Managing Director gave the answers thereto in his presentation on the working of the Company.

Audit findings

2.1.6 Performance of the Company was wanting in all areas of its activity. The Company neither achieved physical nor financial targets, there was high incidence of disbursement of subsidy to ineligible beneficiaries, inadequate financial assistance to assisted beneficiaries, non-formation of Self Help Groups and poor recovery performance as discussed in the succeeding paragraphs.

Special Central Assistance

The Company disbursed margin money of Rs. 13.35 crore from the SCA in violation of Government of India guidelines.

2.1.7 The Central scheme of Special Central Assistance (SCA) was introduced in 1979-80 to give a thrust to the development programme for SCs. The SCA was to be disbursed as subsidy to Below Poverty Line (BPL) beneficiaries in conjunction with loan component from other sources. The GOI had directed (October 2000) that while disbursing subsidy the guidelines contained in the Swarnjayanti Gram Swarozgar Yojna (SGSY) issued by Ministry of Rural Development may be followed in totality. The Company received Rs. 46.06 crore as SCA during 2000-05. The Company disbursed Rs. 13.35 crore as margin money* bearing interest from the SCA upto March 2004 in violation of GOI guidelines, on the plea of insufficient receipt of share capital and to achieve the targets of disbursement.

Deficiency in service/problems faced by applicants

2.1.8 National Productivity Council (NPC) in their Evaluation study had, *inter-alia*, brought out (January- March 1996) the problems being faced by the applicants in obtaining application forms. The Board of the Company had also noted (January 2000) that in Yamunanagar, Bhiwani and Rohtak districts, there were middlemen who collected bribe for getting loan applications cleared from District Managers offices. The Company did not conduct any independent study or sample survey to ascertain problems being faced by the beneficiaries in obtaining loan application forms and/or processing of application, for taking corrective measures. During ARCPSE meeting MD assured that this aspect will also be covered in the study to be got conducted to assess the impact of financial assistance extended by the Company.

Disbursement of financial assistance

Selection of beneficiaries

2.1.9 As per annual action plan, the Company was to identify the eligible beneficiaries for sanction of loan by organising credit camps under overall supervision of ADC concerned. These credit camps were to be attended by the representatives of District Rural Development Agency (DRDA), banks, Gram Sachives (Secretaries), etc. The survey conducted by DRDA was also to be taken into consideration by field staff to ascertain the eligibility of the beneficiaries.

Audit observed that the Company neither organised any credit camp nor consulted the BPL census survey lists available with respective ADCs while selecting/identifying the eligible beneficiaries.

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* This represents loan granted by Company at concessional rate of interest of four *per cent*.

Delay in sanction of loan

2.1.10 The Company did not fix any time limit for sanction and disbursement of loans under the Bank tie-up scheme while it had fixed 20 days under NSFDC scheme for processing loan applications. Justification for not-fixing time limit for sanction and disbursement was not available on record.

The Hon'ble Minister of State, Ministry of Social Justice and Empowerment, GOI while presiding over the meeting of Managing Directors of State Channelising Agencies (CAs) of Apex Corporations had, *inter-alia*, suggested (July1999) that the CAs need to improve their working so as to meet the objective of speedy and timely disbursal of loans to the eligible beneficiaries. In ATNs (September 2000) to COPU's recommendations (January 1998), the State Government/management assured to pursue the cases rapidly with the banks.

Audit observed that district offices did not maintain complete records such as periodical return/register to monitor timely sanction and disbursement of loan. In the absence of complete records, the overall extent of delay could not be analysed in audit. However, a test-check of 285 cases in three[*] districts revealed that:

The Company delayed its recommendations for loans in 65 *per cent* cases.

- the Company delayed its recommendations for loans in 185 cases (65 *per cent*). It took 21 to 100 days in 133 cases, 101 to 365 days in 47 cases and above 366 days in five cases against the stipulated time of 20 days fixed under NSFDC scheme;
- the banks delayed the sanction of loan after receipt of application from the Company in 222 cases (78 *per cent*). The banks took 31 to 100 days in 133 cases, 101 to 365 days in 87 cases and above 366 days in two cases against the period of 30 days recommended by COPU; and

The Company took 31 to 371 days in 73 *per cent* cases in sending margin money/subsidy cheques to banks.

- in 208 (73 *per cent*) cases, the Company took 31 to 371 days in sending cheques of margin money/subsidy to banks for onward disbursement to beneficiaries alongwith the bank loan.

There was no system to analyse delay in sanction of loans or to monitor timely disbursement thereby impacting the efficiency of the scheme. MD of the Company assured (September 2005) that suitable directions will be issued to field offices to help the beneficiaries in early completion of formalities and liaisoning with banks will also be made effective.

2.1.11 The schemes under the NSFDC are advertised in Hindi news papers for receiving loan applications from the eligible applicants. The applications are scrutinised by the respective District Managers within 20 days and got verified through respective ADCs in further 20 days. Thereafter, the cases of applicants found eligible are placed before the Loan Sanctioning Committee. The Loan Sanctioning Committee did not fix any time frame for sanction of loan. The Company sanctioned and disbursed Rs. 2.37 crore to 77 beneficiaries during 1999-2004.

[*] Ambala (160), Jind (60) and Kaithal (65)

Sanction and disbursement of loan took 3-24 months in 57 out of 59* cases (97 *per cent*) and 66 out of 76* cases (82 *per cent*) respectively.

The abnormal time taken in sanction and disbursement of loan hampered the upliftment of the beneficiaries. The management attributed (August 2005) the reasons for delay mainly to non-completion of loan documents by the beneficiaries. In ARCPSE meeting the MD of the Company assured to minimise the delay.

Implementation of schemes

2.1.12 During 1999-04, the Company was engaged in the implementation of six schemes, *viz*.

- Bank tie-up scheme
- Construction of Dwelling-cum-shed scheme
- Loans under NSFDC (Direct loan) scheme
- Loans under NSKFDC scheme
- NSLRS and
- Agriculture Land Redemption scheme.

National Scheme for Liberation and Rehabilitation of Scavengers and their dependents (NSLRS) launched by the Government of India (GOI) already stands reviewed and results incorporated in the Report of the Comptroller and Auditor General of India for the year 2001-02 (Civil), Government of Haryana. The review is yet to be discussed by Public Accounts Committee. Agriculture Land redemption scheme was not covered as the disbursement (Rs. 2.35 lakh) thereunder was negligible.

Targets and achievements

2.1.13 The Company fixed annual targets for advancing loan, margin money, subsidy and bank loan. The following table shows the physical and financial

* The date of sanction and disbursement of loan of remaining 18 cases (77-59) and one case (77-76) respectively, was not available.

targets vis-à-vis achievements of all the schemes during 1999-2004:

Year	Targets		Achievements		Percentage of achievements	
	Physical (Number)	Financial (Rupees in crore)	Physical (Number)	Financial (Rupees in crore)	Physical	Financial
1999-2000	12,600	36.33	3,935	8.87	31.2	24.4
2000-01	12,000	36.12	11,183	24.45	93.2	67.7
2001-02	12,500	42.66	10,583	25.83	84.7	60.5
2002-03	12,500	46.26	10,343	25.12	82.7	54.3
2003-04	10,000	36.53	10,151	24.62	101.5	67.4
Total	**59,600**	**197.90**	**46,195**	**108.89**	**77.5**	**55.0**

The Company could achieve neither physical nor financial targets during 1999-2003.

The Company could neither achieve physical nor financial targets during 1999-2003. The shortfall in financial targets during 1999-2004 was Rs. 89.01 crore. During 2003-04, physical targets were achieved due to reduction in targets.

The management stated (August 2005) that main reasons for non-achievement of targets were less receipt of SCA and share capital from GOI and State Government against budgeted provisions and non-sanction of sufficient cases by banks despite adequate sponsoring of loan applications. The reply is not tenable because the banks rejected applications due to various deficiencies in the applications sponsored by the Company. Further, the Company failed to obtain the State Government guarantee for obtaining loan under NSKFDC scheme due to poor recovery performance.

Sector wise targets and achievements

2.1.14 The Company had enlisted 75 schemes as enlisted in **Annexure-7** under four sectors viz. Agricultural & allied (6), Industrial (26), Trade & business (31) and Professional & self employment sector (12). Physical and financial targets[*] vis-à-vis achievements* under these sectors during 1999-2004 are given in **Annexure-8**.

Audit observed that the Company:

- failed to achieve financial targets during all these five years under Agriculture & allied sector; and
- could not achieve either physical or financial targets under Industrial sector and Professional & self employment sector during all these five years.

[*] These do not include the figures relating to NSKFDC scheme, NSLR scheme, Dwelling-cum-Shed scheme and Agriculture Land Redemption scheme.

High employment generating activities

The Company did not identify the high employment generating activities as recommended by National Productivity Council.

2.1.15 The Company continued to lay emphasis on Agriculture & allied sector and Trade & business sector and did not identify the high employment generating activities in other sectors as recommended by National Productivity Council (NPC), in an evaluation study carried out (January – March 1996) at the behest of the Company. During 1999-2004, out of total financial assistance of Rs.102.28 crore to 43,165 beneficiaries the Company disbursed Rs. 79.78 crore (78 *per cent*) to 38,037 beneficiaries (88.12 *per cent*) in Agricultural & allied sector and Trade & business sector. Industrial sector and Professional & self employment sector received financial assistance of Rs. 22.50 crore (22 *per cent*) to 5,128 beneficiaries (11.88 *per cent*). A further analysis revealed as under:

- Out of 19,658 beneficiaries under Agriculture & allied sector, 14,698 beneficiaries (75 *per cent*) received financial assistance under Dairy farming (for purchase of buffaloes) during 1999-2004. During 1999-2002 the Company fixed targets on the basis of purchase of three buffaloes costing Rs. 34,200 to Rs. 49,800 per beneficiary. Actual financial assistance thereagainst ranged between Rs. 13,794 and Rs. 18,019 per beneficiary. From 2002-03 the Company reduced the number of buffaloes to two with project cost of Rs. 33,200 per beneficiary. The actual average financial assistance provided thereagainst ranged between Rs. 17,906 and Rs. 17,249 per beneficiary. Audit observed that project cost per buffalo under DRDA scheme was Rs. 20,000 during this period as against Rs. 16,600 fixed by the Company.

- In Industrial sector and Trade & business sector, the average actual financial assistance rendered ranged between Rs. 24,869 and Rs. 25,929 against project unit cost of Rs. 40,000 during 2002-04.

Evidently, the Company under-financed the beneficiaries with a view to achieve higher physical targets by ignoring its impact on the viability/sustainability of these schemes. NPC had also upheld (March 1996) this view in their evaluation study. In ARCPSE meeting, MD of the Company assured to diversify the activities and also informed that DMs had been directed to avoid under-financing in future.

Performance of schemes

Scheme wise performance has been discussed in the succeeding paragraphs:

Bank Tie up Scheme

Salient features of the Scheme

2.1.16 Under the Bank Tie up scheme, the Company identifies BPL SC families for providing financial assistance for income generating schemes with project cost up to Rs. 50,000. Subsidy equal to 50 *per cent* of the total project cost subject to a maximum of Rs. 6,000 (increased to Rs. 10,000 in May 2001) along with margin money of 25 *per cent* of the total project cost at the concessional interest rate of four *per cent* is provided to the beneficiaries. The remaining cost of the project is financed by the banks at their normal rate of interest.

Due to inadequate receipt of share capital from State Government/GOI and deficient recovery performance, the Company reduced the proportion of margin money from 25 to 10 *per cent* of the project cost from April 2003.

Reduction of margin money saddled the beneficiaries with additional liability of interest on bank loan.

Audit observed that in six districts during 2003-04 and in all the districts during 2004-05, the Company disbursed margin money of Rs. 1.71 crore to 6,609 beneficiaries at the reduced rate of 10 *per cent* of the total project cost. The margin money at the rate of 25 *per cent* works out to Rs. 4.27 core. The deficit of Rs. 2.56 crore was financed by banks at higher rates of interest, minimum being 10.25 *per cent* per annum as compared to four *per cent* chargeable by the Company. Thus, reduction of margin money not only saddled the beneficiaries with additional liability of interest on bank loan, but the role of the Company in economic upliftment of SC community was also diluted to that extent. In ARCPSE meeting, MD of the Company assured that the issue will be re-examined after the improvement in financial position.

Targets and achievements

2.1.17 Physical and financial targets vis-à-vis achievements under Bank tie-up scheme during 1999-2004 are given below:

Year	Targets		Achievements		Percentage of achievements	
	Physical (Number)	Financial (Rupees in crore)	Physical (Number)	Financial (Rupees in crore)	Physical	Financial
1999-2000	9,330	24.60	2,828	5.05	30	21
2000-01	8,770	25.38	10,010	19.44	114	77
2001-02	10,342	35.40	9,806	21.39	95	60
2002-03	9,660	34.11	9,986	22.36	103	66
2003-04	8,485	30.11	9,844	21.99	116	73
Total	**46,587**	**149.60**	**42,474**	**90.23**	**91.17**	**60.31**

It could be seen from the above table that:

- the Company could not achieve financial targets in any of the years. This was mainly due to poor recovery of dues resulting in poor recycling of funds, less receipt of SCA and share capital.
- modest physical targets were fixed during 2000-01, 2002-03 and 2003-04 as compared to previous year due to which achievement was higher in these years.

Rejection of applications

2.1.18 Audit observed that out of 1,09,971 applications sponsored to banks during 1999-2004, 35,817 (32.57 *per cent*) applications were rejected by the banks. Four* out of six district offices did not maintain records of rejected applications. Scrutiny of 137 rejected applications (Sirsa and Karnal districts) revealed that rejection was mainly due to default by applicant/family member in repayment of earlier bank loan sponsored by DRDA/Cooperative societies (35.8 *per cent*), non-completion of formalities (11.7 *per cent)*, non-availability of space/infrastructure for projects (9.5 *per cent*) etc.

This reveals lack of coordination with DRDA/Banks/Cooperative societies to ascertain creditworthiness and antecedents of applicants, improper examination of economic viability and improper scrutiny of the applications as per laid down criteria by the field offices before recommending the cases to banks.

The management stated (August 2005) that DMs had been directed to remove these deficiencies.

Deficiencies in disbursement of loan

2.1.19 A test check of records of 390 out of 5,399 beneficiaries in four** districts, revealed that the loans of Rs. 89.43 lakh were disbursed during 2000-03 without fulfilling the requisite formalities viz., disbursement of loan to beneficiaries whose annual income did not fall under BPL (5 cases), income not mentioned in the loan application (9 cases), proof of identification not obtained (35 cases), movable or immovable property details not mentioned (81 cases) and loan application not found (25 cases). Similarly, the Company did not obtain utilisation certificates in 387 cases and did not conduct physical verification in any case as per laid down condition of post disbursement. This indicates lack/failure of internal control mechanism.

The management stated (August 2005) that DMs had been directed to avoid such deficiencies in future.

Under-financing

2.1.20 A test check of 330 out of 5,399 loanees in four districts, financed during 2000-03, revealed that the Company had under-financed 277 beneficiaries ranging between Rs. 6,500 and Rs. 17,308 per beneficiary in Trade & business sector and Industrial sector mainly to achieve higher physical targets. Out of these, 82 beneficiaries were irregular in repayment of principal and interest and 122 beneficiaries did not pay even a single instalment. Evidently, under-financing contributed towards chronic default by the loanees as they were unable to generate sufficient income on sustainable basis to repay the loan.

Under financing resulted in chronic default by the loanees.

The management stated (August 2005) that DMs had been directed to ensure adequate financing in future.

* Ambala, Jind, Kaithal and Yamunanagar

** Jind, Karnal, Sirsa and Yamunanagar

Disbursement of subsidy to ineligible beneficiaries

The Company disbursed subsidy of Rs. 35.61 lakh to 428 ineligible beneficiaries out of 794 cases test checked.

2.1.21 The Ministry of Rural Areas and Employment, Department of Rural Employment and Poverty Alleviation, GOI in consultation with Planning Commission finalised (April 1997) a schedule for identifying BPL SC families in rural areas by adopting multiple criteria instead of single criterion of annual family income. The State Government conducted (1997-98) a BPL census wherein families owning land of more than two hectares or pucca house or TV or refrigerator, etc. were excluded from the BPL lists. As per directions of GOI (November 1998) the Company was to render assistance to BPL families fulfilling above criteria. Audit observed that out of 794 cases (Rs. 70.54 lakh) in 428 cases (Rs. 35.61 lakh) the subsidy was disbursed to ineligible beneficiaries as follows:

- In 281 cases the Company disbursed subsidy of Rs. 19.79 lakh during 1999-2004. Out of these, 232 (82.56 *per cent*) beneficiaries having received subsidy of Rs. 16.32 lakh were not eligible.

- In 513 cases in five[#] districts, the Company disbursed subsidy of Rs. 50.75 lakh during 1999-2004. Out of these, 196 beneficiaries having received subsidy of Rs. 19.29 lakh were owning pucca house and hence were not eligible for subsidy.

The high incidence of disbursement of subsidy to ineligible beneficiaries not only deprived the eligible beneficiaries from the benefit but also the very purpose of the scheme was defeated.

The management stated (August 2005) that though the names of a number of SC persons did not appear in the BPL survey lists, they were living below poverty line. The reply was not acceptable as the Company failed to demonstrate their eligibility through any proof/record regarding fulfilment of conditions of multiple criteria.

Non recovery of subsidy

2.1.22 The Swaranjyanti Gram Swarozgar Yojna (SGSY) guidelines circulated by GOI, Ministry of Rural Development prescribed that the beneficiaries shall not be entitled to any benefit of subsidy if the loan was fully repaid before lock-in-period i.e. three years as against total repayment period of five years. If the loan is fully repaid before the currency period but after lock-in-period, the beneficiaries shall be entitled only to pro rata subsidy.

The Company did not recover subsidy of Rs. 45.80 lakh from the beneficiaries who had fully repaid the loan within the lock-in-period/before currency period.

Audit observed that 615 loanees who had been disbursed margin money of Rs. 30.19 lakh along with subsidy of Rs. 48.52 lakh during 1999-2004 had fully repaid the loan within the lock-in-period/ before the currency period. The Company did not recover subsidy amounting to Rs. 45.80 lakh (March 2005) from these ineligible beneficiaries to avoid availment of subsidy by the ineligible beneficiaries in future.

[#] Karnal, Kaithal, Sirsa, Yamuna Nagar and Jind.

Deficient monitoring/liaisoning with banks

As against the norms of one month, out of Rs. 27.22 lakh undisbursed subsidy and margin money of Rs. 26.04 lakh was returned by banks after delays of one month to 42 months.

2.1.23 The banks are required to return the undisbursed subsidy/margin money received from the Company within one month of the date of issue of cheque. Audit observed that as against the norms of one month, out of Rs. 27.22 lakh, undisbursed subsidy/margin money, the banks returned Rs. 26.04 lakh to the Company during 1999-2005 after delays of one to 42 months of the date of issue of cheques to banks. The Company did not evolve any mechanism to monitor the timely disbursement of margin money/subsidy by the banks to the beneficiaries or of timely return of the undisbursed money.

The management stated (August 2005) that the DMs had been advised to obtain disbursement certificates from the banks in time.

Construction of Dwelling-cum-shed scheme

2.1.24 As per guidelines issued by GOI for SCA, the State Governments have full flexibility in utilizing SCA subject to the condition that it should be utilized in conjunction with special component plan and other resources from corporations, financial institutions, etc. These guidelines emphsised (October 2000 and July 2003) that SCA must be used mainly for assisting SC families living below the poverty line for bridging the critical gaps between availability and requirement of finance. The State Government in deviation to these guidelines approved (October 2001) a scheme for the construction of Dwelling-cum-shed to be financed from subsidy and loan if the beneficiary so desired. State Government relaxed the mandatory condition of obtaining loan alongwith subsidy.

Under the scheme, subsidy at the rate of Rs. 10,000 was to be provided to BPL SC persons having a plot of minimum 75 sq. yard for construction of Dwelling-cum-shed both for living and starting own business.

The subsidy of Rs. 30.17 lakh was disbursed without loan component in violation of Government of India guidelines.

During 2002-04, the Company disbursed subsidy of Rs. 30.17 lakh to 308 beneficiaries. These beneficiaries had not availed any loan from other source in conjunction with the subsidy as per GOI guidelines thereby defeating the objective of income generation through a mix of institutional finance and subsidy to enable the beneficiaries to cross the poverty line. This indicated misutilisation of SCA.

Direct loaning/NSFDC scheme

Salient features of the scheme

2.1.25 The Company was nominated by NSFDC as Channelising Agency for implementation of NSFDC assisted scheme in Haryana since 1991-92. NSFDC extended financial assistance to the Company in the form of term loan at an interest rate of four *per cent* (three *per cent* with effect from October 2002) to the extent of 90 *per cent* of the loan sanctioned by the Company against the specific schemes for SC beneficiaries. The loan was sanctioned for 126 trades upto a limit of Rs 30 lakh and was to be repaid in 60 monthly instalments with seven *per cent* annual interest (six *per cent* from October 2002). Persons with annual family income upto twice the poverty line limit are eligible for assistance under the scheme. The Company also provided subsidy at the rate of 50 *per cent* of the project cost subject to maximum of Rs. 6,000 (Rs. 10,000 with effect from May 2001) to the BPL beneficiaries. Since 1991-92, the Company had availed term loan of Rs. 20.72 crore till 31 March 2004 from NSFDC and had assisted 1350 beneficiaries by providing financial assistance of Rs. 20.58 crore.

Targets and Achievements

2.1.26 During 1999-2004, the Company disbursed Rs. 11.74 crore to 378 beneficiaries for purchase of commercial vehicles (367 cases), electrical goods-cum-work shop (4 cases), leather footwear manufacturing units (one case), automobile repair-cum-spare parts (2 cases) and band party (4 cases). Year wise details of achievements of targets are given below:

Year	Targets		Achievements		Percentage of achievements	
	Physical (Number)	Financial (Rs. in crore)	Physical (Number)	Financial (Rs. in crore)	Physical	Financial
1999-2000	220	4.79	58	1.67	26	35
2000-01	180	3.78	104	2.67	58	71
2001-02	118	2.99	82	2.83	69	95
2002-03	220	5.01	78	2.27	35	45
2003-04	105	3.14	56	2.30	53	73
Total	**843**	**19.71**	**378**	**11.74**	**45**	**60**

A perusal of above table reveals that the percentage of achievement of physical and financial targets ranged between 26 and 69 and 35 and 95 respectively. Audit observed that disproportionate financial achievements in comparison to physical achievements was mainly due to change of projects from low cost units to high cost units.

Deficiencies in implementation of NSFDC scheme

2.1.27 Out of 378 cases covered under the scheme during 1999-2004, 367 cases pertained to purchase of commercial vehicles. Test check of 200 cases of loans disbursed for vehicles during March 1995 to 2003-04 revealed deficiencies viz: vehicles not registered as taxis (73 cases), insurance cover /subsequent insurance not on record (143 cases), driving licences not sent to driving licence issuing authority for verification of genuineness (146 cases), driving license expired and renewed copies of valid driving licence were not found (65 cases), photocopies of registration certificates were not found on record (87 cases), photo copies of permits/renewed permits were not on record (132 cases).

The management stated (August 2005) that DMs had been directed to ensure that such discrepancies should not occur in future.

National Safai Karamcharis Finance and Development Corporation (NSKFDC) Scheme

2.1.28 The State Government nominated (May 1998) the Company as State channelising agency for providing assistance under NSKFDC Scheme. The NSKFDC advanced (March 2002) Rs. 1.18 crore to the Company for disbursement after obtaining guarantee from the State Government for repayment.

During 1999-2004, the Company fixed target for disbursement of Rs. 6.51 crore (NSKFDC loan: Rs. 5.97 crore , subsidy: Rs. 0.22 crore and margin money: Rs. 0.32 crore) to 330 beneficiaries under various income generating schemes.

The State Government, however, declined (August and December 2002, July 2003 and January 2004) to give guarantee due to poor recovery performance of the Company. The Finance Department of the State Government observed (August 2002) that the Company did not meet the normative level prescribed by national refinance body and advised the Company to examine the possibility of giving loan through Self Help Groups (SHGs).

Failure of the Company to improve recovery performance and motivate the Scavengers resulted in non-implementation of the scheme.

The Company did not form any SHG to enable the SCs to come above the poverty line and refunded (March 2003) the advance of Rs. 1.18 crore to NSKFDC. Thus, failure of the Company to improve recovery performance and motivate the Scavengers/Dependents to form SHGs resulted in non-implementation of the scheme.

The Company stated (August 2005) that Co-operative group loaning was not a success in the State as response was not encouraging. The reply was not convincing as DRDAs engaged in similar activities were rendering financial assistance by forming SHGs in association with banks. The fact remained that the Company failed to motivate the SCs to organize themselves into SHGs by obtaining the help of Non-Government Organisations including banks as required.

Utilisation of financial assistance

Physical verification of assets not conducted

2.1.29 The guidelines of SGSY provide annual verification of assets of the beneficiaries on drive* basis at the end of each year. As per the terms of the agreements the beneficiaries were required to maintain assets created out of financial assistance and hypothecate the assets in favour of the Company. The beneficiaries were also required to produce assets/relevant records for inspection whenever required.

The Company did not carry out the physical verification of assets as required.

The Company disbursed Rs. 17.63 crore to 16,905 beneficiaries, in six districts, as margin money and subsidy under Bank tie-up scheme during 1999-04. The Company did not carry out the required physical verification of

* It implies surprise physical verification at a stretch in a particular area.

assets of the beneficiaries at the end of each year in five out of six district offices. In Sirsa district where margin money and subsidy (Rs. 2.77 crore) had been disbursed to 3,038 beneficiaries during 1999-2004, assets of only 351 (11.6 *per cent*) beneficiaries were verified. Assets of 67 beneficiaries, involving margin money and subsidy of Rs. 12.92 lakh, did not exist. Action taken against these beneficiaries was awaited in audit (August 2005).

Audit further observed that in Sirsa district, 157 beneficiaries who had been disbursed margin money of Rs. 9.18 lakh and subsidy of Rs. 5.85 lakh during 1985-97 were referred to the Collector during 2001-04 for effecting recovery as arrears of land revenue. The cases were returned by the Collector during 2003-05 stating that the beneficiaries were not in possession of any moveable/immovable asset in their names. Therefore, chances to recover Rs. 15.76 lakh including interest upto 31 March 2004 from 140 beneficiaries (after recovering Rs 1.67 lakh from 17 beneficiaries) were bleak.

Failure to conduct periodical physical verification led to the misutilisation of assets by the beneficiaries in above cases.

The management stated (August 2005) that the Company did not have sufficient infrastructure to conduct cent percent post lending inspection and physical verification of assets was conducted at random. The reply is not tenable as the Company's half-hearted implementation of the scheme resulted not only in the beneficiaries misutilising the financial assistance but also put the chances of recovery in jeopardy.

Monitoring and evaluation of schemes

The Company/State Government had not taken up evaluation study to ascertain the benefits derived.

2.1.30 The Company did not evolve any system to monitor the benefits derived by the beneficiaries out of the subsidy /margin money disbursed to them. GOI, Ministry of Social Justice and Empowerment directed (February 2002) the State Government to take up an evaluation study for ascertaining the beneficiaries who crossed the poverty line and constraints faced so that appropriate measures could be taken. No such study had been conducted so far (March 2005). As such the performance of the Company in bringing improvement in the economic status of the SC families living below the poverty line could not be assessed.

The management stated (August 2005) that it was planning to get an evaluation study of Bank tie-up scheme conducted by some reputed organisation. The reply is deficient because it is silent about evaluation study of other schemes.

Recovery of financial assistance

2.1.31 The margin money with interest advanced by the Company, under Bank tie-up scheme is recoverable in eleven equated half-yearly instalments along with interest at the rate of four *per cent* per annum. In case of default, penal interest at four *per cent* per annum is also chargeable. Under NSFDC scheme, the recovery is made in monthly instalments over a period of five years at the rate of seven *per cent* per annum (six *per cent* from October 2002). In case of any default in both the schemes the whole amount becomes recoverable in lump sum as arrears of land revenue along with penal interest.

Targets and achievement of recovery

2.1.32 The table below indicates the recovery performance of the Company during 1999-2004:

(Rupees in crore)

Year	Amount recoverable at the beginning of the year	Amount due during the year	Total amount recoverable	Recovery made during the year	Overdue amount at the close of the year	Percentage of recovery to recoverable amount
1999-2000	11.75	5.75	17.50	3.64	13.86	20.80
2000-01	13.86	5.99	19.85	3.85	16.00	19.40
2001-02	16.00	5.79	21.79	4.69	17.10	21.52
2002-03	17.10	5.86	22.96	3.83	19.13	16.68
2003-04	19.13	6.76	25.89	4.84	21.05	18.69

Overdue amount increased from Rs. 13.86 crore to Rs. 21.05 crore during 1999-2004.

Audit observed that the recovery performance of the Company was dismal at 16.68 to 21.52 *per cent* during 1999-2004. Overdue amount increased by 52 *per cent* from Rs. 13.86 crore to Rs. 21.05 crore during 1999-2004 due to lack of monitoring system and pursuance. Thus, poor recovery performance resulted in failure of the Company to recycle the funds, which in turn affected wider coverage of beneficiaries.

The management attributed (August 2005) non-achievement of recovery targets to shortage of staff, lack of mobility and poor financial status of beneficiaries indicating deficient implementation of schemes.

Poor monitoring of chronic defaulter cases

Against due amount of Rs. 72.44 lakh from 1,270 loanees, not even a single instalment was received even after expiry of full repayment period.

2.1.33 Audit test-checked 4,602 cases involving disbursement of margin money of Rs. 2.17 crore during March 1997 to May 2003 under Bank tie-up scheme (Non-scavengers). Audit observed that 2,069 loanees with payable amount of Rs. 1.24 crore (Principal: Rs. 98.72 lakh, interest: Rs. 25.23 lakh) failed to repay even a single instalment of principal and/or interest upto March 2005. Out of these 1,270 loanees with payable amount of Rs. 89.79 lakh (Principal: Rs. 72.44 lakh, interest: Rs. 17.35 lakh) failed to repay even a single instalment of principal and interest despite the fact that the repayment period had expired. The Company issued recovery notices to defaulters after delays ranging from three to 36 months from the date of default.

The Company did not conduct any study to ascertain the reasons for chronic default as suggested by NPC.

Non recovery of dues

2.1.34 The overdue amounts under NSFDC scheme had increased from Rs. 3.57 crore to Rs. 6.66 crore during 1999-2004. The percentage of amount recovered to the amount due for recovery ranged from 30 to 41 only during 1999-2004, which reflected poor recovery efforts. Resultantly, the Company had to repay loan of Rs. 1.80 crore to NSFDC from other sources.

Audit observed that out of loan amounting to Rs. 5.07 crore disbursed during 1994-2004 to 200 beneficiaries under NSFDC scheme, an amount of Rs. 2.01 crore (including interest: Rs. 39.28 lakh) was in default. The Company did not effect recovery from the sureties and also did not take up the cases with respective Road Transport Authority for not renewing the permits before clearance of Company's dues.

An amount of Rs. 2.08 crore in respect of 72 beneficiaries had become fully due as the loan period of five years had already elapsed. The Company could recover only Rs. 88.70 lakh leaving a balance of Rs. 1.20 crore including interest outstanding as tabulated below:

(Amount: Rupees in lakh)

Districts	**Number**	**Amount due for recovery**	**Recovery made**	**Balance amount recoverable as on 31.7.05**
Ambala	13	31.29	10.56	20.73
Kaithal	21	77.30	28.78	48.52
Jind	14	50.80	27.73	23.07
Sirsa	1	2.28	0.06	2.22
Karnal	12	21.71	11.33	10.38
Yamunanagar	11	24.95	10.24	14.71
Total	**72**	**208.33**	**88.70**	**119.63**

Out of 72, 67 cases were referred to the District Collectors for recovery as arrears of land revenue, the outcome of which was awaited (August 2005).

The management stated (August 2005) that DMs had been asked to pursue the recovery more vigorously with the Collector.

Poor pursuance of recovery cases

2.1.35 The following table indicates the year-wise position of cases referred to the Collector for realisation of overdue amount as arrears of land revenue during 1999-2004:

Year	**Number of cases referred to Collector**
1999-2000	978
2000-01	1056
2001-02	2024
2002-03	1066
2003-04	3774
Total	**8898**

The Company did not maintain consolidated records indicating amounts in default against above defaulters and recoveries, if any, effected thereagainst.

Improper maintenance of loanee ledgers

2.1.36 Audit observed that loanees' ledgers were neither updated regularly nor signed by the concerned Ledger Clerks, Accountants and DMs, in spite of instructions by the Managing Director in November 2003. Resultantly, the Company did not have updated number of beneficiaries, amount disbursed, number of operational accounts and amount involved therein, accounts closed, number of defaulters, number of cases referred to Collector for recovery and amount involved therein, in order to chalk out plan/strategy for effective recovery campaign.

The management, while admitting (August 2005) the facts, stated that guidelines had been issued to the DMs for necessary action.

Internal audit/Internal control

2.1.37 Audit observed that the Company did not prepare any Audit/Accounting Manual and reliable internal audit system did not exist in the Company.

Internal control/ system deficiencies

2.1.38 Audit noticed the following deficiencies in the internal control system of the Company:

- There was no segregation of duties, e.g. the duties of Accountant as well as Cashier were being performed by the same person in field offices; and the officials engaged in the work of ledger keeping were also collecting cash from the beneficiaries and issuing receipts.
- There was no system to reconcile the amounts remitted to the banks for onward disbursement to beneficiaries to ascertain as to whether the banks had actually disbursed the amounts to beneficiaries within the prescribe time and undisbursed amount was refunded to the Company.
- Economic viability of projects was not being examined before rendering financial assistance for the projects under Trade & business sector and Industrial sector.
- There was no mechanism to ensure that the beneficiaries had not obtained financial assistance from banks under DRDA schemes or under any other Government scheme for the same project.
- There was no system for periodical reconciliation of figures of loans and advances between the General Ledger and subsidiary records. There existed a difference of Rs. 1.18 crore during 1998-99 and the amount of difference as per certified accounts for 2000-01 was Rs. 97 lakh.

- There was no system to conduct physical verification of receipt books and reconciliation of total receipt books issued and utilised in five[*] districts.

- Database to prepare Management Information System had not been developed and some of the important records were not maintained.

The management, while admitting the facts, stated (August 2005) that remedial steps were being taken to remove the above deficiencies.

Conclusion

The overall performance of the Company with regards to socio-economic upliftment of SC population in the State was dismal. The Company could cover only 46 *per cent* of the targeted population due to flawed selection of beneficiaries, non-existence of a system of impact assessment, inadequate/under-financing of projects, disbursement of subsidy to ineligible beneficiaries, inability to form Self Help Groups, lack of monitoring system and improper follow up with the banks.

The recovery performance of loan was not satisfactory. There was constant increase in the overdues recoverable. Large amount was locked up resulting in inadequate generation of internal resources. The Company instead of improving its recovery performance diverted the subsidy under Special Central Assistance towards disbursement of margin money. Besides, the Company reduced rate of margin money from 25 to 10 *per cent* of project cost thereby adversely affecting the viability of projects because of higher interest burden of Bank loan on the beneficiaries.

The internal control system was deficient as there was no consolidated records to keep a watch on the recovery effected through collectors and the loanee ledgers were not properly maintained/updated. The Company did not fix any time limit for disbursement of loan under bank tie up scheme. The Company did not identify high employment generating activities with adequate financial assistance and continued to finance routine type low cost projects. Thus, the Company largely failed to achieve its objective of socio economic upliftment of Scheduled Castes community.

Recommendations

- **The system of identification of beneficiaries needs to be streamlined to ensure that the objectives of the schemes are achieved. The Company needs to arrest the deficiencies in implementation of the schemes as recommended by COPU,**

[*] Ambala, Kaithal, Karnal, Jind and Yamunanagar.

Ministry of Rural Development and Ministry of Social Justice and Empowerment. The Company should immediately put in place a reliable Management Information System and internal control mechanism with proper monitoring and analysis at corporate office.

- **The performance of implementing agencies including banks needs to be reviewed periodically to ensure timely disbursement of funds (including bank's share) to the beneficiaries.**

- **Prescribed physical verification of assets needs to be carried out meticulously at every level once a year.**

- **The recovery mechanism needs to be strengthened to ensure recycling of funds and consequently large coverage of beneficiaries.**

- **The Company should identify high employment generating activities with adequate financial assistance instead of financing routine type low-cost projects.**

The Management noted the recommendations and assured to implement the same in future.

The matter was referred to the Government in May 2005; the reply had not been received (August 2005).