THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)

SEVENTEENTH REPORT

(Presented on 17-12-2012)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2012

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On

Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited, Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited & Kerala State Backward Classes Development Corporation Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31-3-2007 (Commercial)

85/2013.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2011-2014) having been authorised by the Committee to present the Report on their behalf, present this Seventeenth Report on Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited, Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited & Kerala State Backward Classes Development Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the Year ended 31st March, 2007 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31-3-2007 was laid on the Table of the House on 26-2-2008. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2008-2011.

This Report was considered and approved by the Committee at the meeting held on 12-7-2012.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the SC/ST Development Department of the Secretariat and KSDC for SC/ST Limited, CC Corporation Limited & KSBCDC Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, SC/ST Development Department and Finance Department and the officials of KSDC for SC/ST Limited, CC Corporation Limited & KSBCDC Limited who appeared for evidence and assisted the committee by placing their considered views before the Committee.

K. N. A. Khader,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th December, 2012.

REPORT

ON

KERALA STATE DEVELOPMENT CORPORATION FOR SCHEDULED CASTES & SCHEDULED TRIBES LTD., KERALA STATE DEVELOPMENT CORPORATION FOR CHRISTIAN CONVERTS FROM SCHEDULED CASTES AND THE RECOMMENDED COMMUNITIES LTD. & KERALA STATE BACKWARD CLASSES DEVELOPMENT CORPORATION LTD.

Introduction

2.2.1 With the objective of raising the economic status of Scheduled Castes, Scheduled Tribes, Backward Classes, Minorities, Christian Converts and other Recommended Communities, State Government set-up the following companies:

Sl. No.	*Name of the Company*	*Date of incorporation*	*Targeted section of population*
1	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited (SC ST Corporation)	7th December, 1972	Scheduled Castes and Scheduled Tribes
2	Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited (CC Corporation)	3rd December, 1980	Christians Converted from Scheduled Castes and other recommended communities
3	Kerala State Backward Classes Development Corporation Limited (BCDC)	28th February, 1995	Backward Classes and Minority Communities

These three companies mainly implemented different schemes of financial assistance among their respective target section of population. The fund requirements thereto are met out of equity contribution from the State/Central Government and soft loans from respective National Financial Institutions in social sector such as National Scheduled Castes Finance Development Corporation

(NSFDC), National Scheduled Tribes Finance Development Corporation (NSTFDC), National Backward Classes Finance and Development Corporation (NBCFDC), National Minorities Development and Finance Corporation (NMDFC) etc. The concerned National Agencies had also recognised these companies as their State Channelising Agencies (SCAs).

The following major schemes were implemented by the three companies during 2002-07:

Sl. No.	*SC ST Corporation*	*CC Corporation*	*BCDC*
1	Self Employment Loan Scheme*	Self Employment Loan Scheme*	Self Employment Loan Scheme*
2	Housing Scheme †	House Construction Scheme/House Revamping Scheme †	House Renovation Loan Scheme †
3	Education Loan Scheme †	Education Loan Scheme †	Education Loan Scheme*
4	Marriage Loan Assistance Scheme †	Marriage Loan Assistance Scheme †	Marriage Loan Assistance Scheme †
5	Foreign Employment Loan Scheme †	Foreign Employment Loan Scheme †	Foreign Employment Loan Scheme †
6	Agricultural Land Purchase Scheme*	Agricultural Land Purchase Scheme †	Micro Finance Loan Scheme*
7	Micro Credit Loan Scheme*		
8	Transport Scheme*		

The Management of each of these Companies is vested in a Board of Directors (BOD) appointed by the State Government. The Managing Director (MD) is the Chief Executive of each Company who is assisted by Project Managers/Regional Managers/District Managers at the field level.

Both SC ST Corporation and BCDC are having district level offices to reach out to the target population. CC Corporation is having loan outlets only in three‡ out of 14 districts in the State.

* National Agency Scheme.

† Company Scheme.

‡ Kottayam, Thiruvananthapuram and Kozhikode.

BCDC had registered (May 2003) itself with Reserve Bank of India as a Non-Banking Financial Company as required under sub-section (1) of section 45-1A of Reserve Bank of India Act, 1934. The other two Companies have not complied with this statutory requirement.

There were arrears in finalisation of accounts in all the three companies. While SC ST Corporation had finalised the accounts up to 2003-04, BCDC and CC Corporation finalised their accounts up to 2000-01 and 1993-94 respectively. As per the latest finalised accounts of SC ST Corporation and CC Corporation their accumulated loss was ₹ 0.48 crore and ₹ 0.63 crore respectively as against paid up capital of ₹ 48.46 crore and ₹ 2.08 crore respectively. BCDC recorded accumulated profit of ₹ 6.07 crore in its accounts for 2000-01.

A review on 'Efficiency in Implementation of schemes by SC ST Corporation and CC Corporation' was included in the Report of CAG for the year ended 31st March, 1998 (Commercial), Government of Kerala. The review was discussed by COPU and the main recommendations contained in the Twentieth Report presented (February 2003) to the Legislature were:

- Proper field study should be conducted, beneficiaries identified and viability of the scheme assessed by SC ST Corporation before taking up schemes.
- SC ST Corporation should maintain detailed records of the loan disbursed, the amounts recovered, balance pending recovery, etc. and take effective steps for realisation of the dues.
- The huge arrears in finalisation of accounts of CC Corporation should be cleared on a war footing.
- CC Corporation should be merged with BCDC as they target the same segment of the population.

The Companies have not implemented the above recommendations as is evident from the audit findings *infra*.

Scope of Audit

2.2.2 This performance review conducted during December 2006 to March 2007 covers the activities of the Companies during 2002-07. The records at head offices of all the three Companies and 4 out of 12 district offices of SC ST Corporation, 5 out of 14 district offices of BCDC and one of the two district offices of CC Corporation selected on the basis of turnover, recovery efficiency, location and previous Inspection Reports, were examined.

Audit objectives

2.2.3 The audit objectives of the performance review were to ascertain whether:

- the companies had prepared a well rounded plan to cover the entire targeted population in a phased manner;
- the activities undertaken by the organisations were result oriented for sustained community development of the target population;
- the systems developed in the organisations were efficient enough to ensure optimum utilisation of funds placed at their disposal for fulfillment of the specified objectives at the minimum cost of administration;
- the machinery for selection of beneficiaries, disbursement and recovery of loans were efficient and the systems were transparent;
- the terms and conditions of financial assistance were compatible with the physical and financial capabilities of the target group;
- the companies had devised and put in place an effective system of oversight so as to ensure efficient implementation of the schemes assigned;
- the companies had made an objective assessment of the impact of various schemes so as to take remedial steps wherever required; and
- Internal control, Internal Audit and Corporate Governance Systems in the organisations were effective.

Audit criteria

2.2.4 The following audit criteria were adopted:

- memorandum and articles of association of the companies;
- guidelines issued by the National Lending Agencies/State Government and those internally formulated by Companies, policy decisions of BOD of respective companies, etc.;
- policy framework of the State Government for upliftment of weaker sections of the society;
- guidelines/norms for selection of beneficiaries, sanction and disbursement of funds; and
- laid down systems and procedures of recording transactions, collection of repayments, its custody and remittance to banks, internal check and internal control systems.

Audit methodology

2.2.5 The audit adopted the following mix of methodologies:

- detailed system-study in the respective organisations;
- detailed case studies of selective cases of loans disbursed;
- interviews with field level officers of the organisations;
- discussions with top management;
- examination of books of accounts and other records and study reports prepared by national institutes and other Government agencies, etc.

Audit findings

2.2.6 Audit findings emerging from performance audit were reported (June 2007) to the Management/Government and discussed in the meeting (31st July, 2007) of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting was attended by the Principal Secretary to the State Government, Scheduled Castes & Scheduled Tribes Development Department and MDs of BCDC and SC ST Corporation. The views expressed in the meeting have been taken into consideration while finalising the performance review.

Audit findings are discussed in the succeeding paragraphs.

Performance evaluation

2.2.7 Fund aggregating ₹ 570.71 crore was received by the three Companies since inception to 31st March, 2007 from State/Union Government and National Financial Institutions by way of equity, subsidy and loans, as follows:

Sl. No.	*Particulars*	*SC ST Corporation*	*CC Corporation*	*BCDC*	*Total*
		(₹ in crore)			
1	Equity/subsidy from State Government	95.23	20.30	50.56	166.09
2	Loan assistance from State Government	Nil	1.57	Nil	1.57
3	Loans from National Financial Institutions	65.37	10.54	295.51	371.42
4	Equity contribution from Union Government	31.63	Nil	Nil	31.63
	Total	192.23	32.41	346.07	570.71

The companies had disbursed funds aggregating ₹ 570.90 crore among 263581 beneficiaries under various schemes of financial assistance up to 31st March, 2007. The disbursements during 2002-07 was of ₹ 296.81 crore, spread among 92343 beneficiaries, as shown below:

	Loans Disbursed			
	Since inception—March 2007		*2002-07*	
Companies	*No. of beneficiaries*	*Amount of loans (₹ in crore)*	*No. of beneficiaries*	*Amount of loans (₹ in crore)*
SC ST Corporation	133554	158.52	6312	32.70
CC Corporation	10556	20.69	3204	8.53
BCDC	119471	391.69	82827	255.58
Total	263581	570.90	92343	296.81

In the absence of community-wise census, the exact population of target communities of the companies was not ascertainable. Out of the total population of 3.18 crore in the State as per 2001 census, 43.75 per cent belonged to minority communities and 10.95 per cent to SC & ST. Further, majority of the population in the State also belonged to backward classes. As such the coverage of 2.64 lakh (0.83 per cent) beneficiaries achieved by the three companies up to 31st March, 2007 was not significant.

Planning

Non-identification of specific target group

2.2.8 As per norms fixed by the National Agencies, families belonging to target communities living below double the poverty line* from the specific target group are eligible for Companies' lending activity. However, in the absence of micro level research studies and census data on the income levels of the families belonging to target communities, no database is available with the companies to identify and assess the size and magnitude of the target group for planning their activities. In the absence of reliable data, neither had any strategic plan formulated nor had annual physical targets fixed and achievements evaluated. No serious attempts have been made by the Companies to remedy this handicap. SC ST Corporation and BCDC agreed (August 2007) that there was no reliable data on target population.

* Having annual family income below ₹ 31,952 in rural areas and ₹ 42,412 in urban areas up to March 2003 and ₹ 40,000 in rural areas and ₹ 55,000 in urban areas from April 2003.

Targets and achievements

2.2.9 As need based targets could not be fixed due to non-identification of target groups, the Companies did not follow a system of objective-based targeting of its performance. SC ST Corporation on regular basis and BCDC from 2005-06 onwards, however, followed the system of fixing financial targets based on fund availability. The annual achievements recorded in financial terms ranged between 37.71 and 74.78 per cent (2002-07) in respect of the former Company and 65 per cent (2005-06) and 98.15 per cent (2006-07) in respect of the latter.

Mobilisation of resources for implementation of schemes

2.2.10 Fund assistances from National agencies were obtained based on Annual Action Plans (AAP) submitted by the Companies.

Details of AAP submitted by the three Companies, funds allocated and funds released by National agencies during 2002-07 were as given in Annexure 12. Scrutiny of Annexure 12 reveal that the financial projections made in the AAP were unrealistic, and allocation and release of funds by National Agencies also lacked consistency.

As against sanction of ₹ 450.20 lakh (2001-02) by NBCFDC, CC Corporation utilised only ₹ 50 lakh during the year. NBCFDC, therefore, restricted the disbursement for subsequent years (2002-03 to 2006-07) between ₹ 50 lakh and ₹ 1 crore by fixing a low absorption capacity for the Company. Due to this the Company could not channelise the indented funds (₹ 17.49 crore). The target community was, thus, deprived of the bulk share of assistance available for their welfare.

It was further noticed that there was retardation of growth in business volume, disruption in fund flow from National agencies, disbursements without qualitative scrutiny, under exploitation of resources, non-promotion of special schemes, etc., as discussed below:

Retardation in business growth

2.2.11 None of the Companies could improve upon the quantum of assistance channelised towards beneficiaries on a steady basis and therefore no growth in business volume was recorded during 2002-07. There was also marked decline in quantum of assistance channelised by SC ST Corporation and CC Corporation during 2004-05 and 2005-06. The decline was to the extent of ₹ 4.08 crore in respect of first company and ₹ 1.35 crore in respect of second.

SC ST Corporation attributed (August 2007) the retardation in growth to non-receipt of share capital contribution from Government in time. Audit, however, observed that Government had released 93 per cent of the budgeted fund allocation during the period 2002-07 as mentioned in paragraph .... The main reason for retardation in business growth was the inability of the Company in making optimum use of the available capital base due to its failure in obtaining prompt repayments from loanees.

Disruption in fund flow

2.2.12 The flow of funds from National Agencies was not regular due to fund constraints on their part as well as non-provision/delay in provision of sufficient Government guarantee by the Companies. For want of necessary funds of their own, both SC ST Corporation and CC Corporation used to suspend the lending activities as and when the fund flow from National Agencies got disrupted.

BCDC, by virtue of its comfortable fund position could operate the scheme without such interruption from 2002-03 onwards. Such diversions from funds which could have been utilised for higher interest fetching own schemes have caused loss of interest to the extent of ₹ 15.19 lakh on funds amounting to ₹ 9.68 crore diverted during October 2006 to February 2007.

Disbursement without qualitative scrutiny

2.2.13 The funds of the National Agencies had to be utilised within 90 days of release, failing which, it attracted penal rate of interest of six per cent as against the normal rate of three per cent per annum. Most often the Companies processed the loan applications, only after receipt of funds from the National Agencies. As a result there was hasty disbursement of funds to adhere to time schedule. Qualitative scrutiny of loan applications could not be made on such occasions. Further, this disbursement system prompted the managements to draw the fund restricting it to easily achievable targets for disbursement, which adversely affected the business volume and growth potential. Had the Companies followed a system of selection of beneficiaries sufficiently in advance, based on action plans, the loan assistance under various schemes could have been optimised.

Under exploitation of resources

2.2.14 The fund availability from National agencies was not exploited to its full potential by any of the three Companies, particularly SC ST Corporation and CC Corporation. The CC Corporation was channelising funds of only NBCFDC although funds were also available from NMDFC which had approved (October 1995) it as a channelising agency. The Company also did not channelise funds under 'Micro finance'* and 'New Swarnima Scheme'† (NSS) introduced by NBCFDC in 1998-99 and 2001 respectively, with very low rates of interest. It was also observed that the Company had to refund a sum of ₹ 14.66 lakh to NBCFDC towards unutilised balance of funds drawn during 2004-06.

The Management attributed (November 2006) the refund to procedural delays in processing loan applications due to incompetence of its staff.

SC ST Corporation had been under utilising the funds allocated by National Agencies since its disbursement activities were curtailed during 2002-07 due to poor recovery performance of loans already disbursed. As against funds amounting to ₹ 16.73 crore allocated by NSFDC during 2002-07, the Company could draw and utilise only ₹ 13.97 crore (83.50 per cent). Similarly, Company could channelise only ₹ 59.97 lakh (24 per cent) out of ₹ 2.50 crore allotted by NSTFDC for tribal population during 2002-07. While the tribal population of the State constituted 10.44 per cent of SC ST population, the loans distributed by the Company among them constituted only 4.92 per cent of its gross loan disbursements. When compared to the tribal population of ₹ 3.64 lakh as per 2001 census, the Company covered an average of 45 beneficiaries from the target group per annum representing only 0.01 per cent of the tribal population. Thus, the Company could not fulfill its social obligation to assist the tribal population to the desired extent.

The Management attributed (August 2007) the under utilisation to the inability of target group in furnishing necessary sureties/securities for availing of loan assistance as well as company's inability to reach out to tribal population on account of infrastructure and financial constraints.

The Company could have overcome the said constraints by implementing suitable micro credit schemes among target group, promoting SHGs/NGOs, which was proposed (April 2003) to be taken up as part of future plans.

Payment of non-utilisation charges

2.2.15 SC ST Corporation drew (March 2000) ₹ 84.86 lakh from National Safai Karmachari Finance Development Corporation (NSKFDC) for implementation of different self employment schemes amongst SCs working as

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* Under this scheme, loans of small amounts up to ₹ 15,000 were disbursed to individuals.

† Under this scheme, financial aid up to ₹ 50,000 is given to women beneficiaries belonging to BPL category.

scavengers. Company had not adequately ascertained the scope and potential of distribution of funds before hand and could utilise only ₹ 11.03 lakh for distribution among 44 beneficiaries. The balance amount of ₹ 73.83 lakh was refunded (January 2002 and March 2004) to NSKFDC which attracted non-utilisation charges of ₹ 14.86 lakh at the rate of 10 per cent per annum. After setting off the interest earned on term deposit of surplus funds, (at an average rate of 5 per cent)* Company suffered loss of ₹ 7.43 lakh due to drawing of funds without adequate planning for utilisation.

The Management stated (August 2007) that the loan funds were in fact thrust upon them by NSKFDC who later on penalised the Company for non-utilisation. The reply was not tenable as the Company could have refunded funds drawn in excess of requirements.

Non-promotion of special schemes

2.2.16 BCDC did not give priority to special schemes introduced (2001) by National Agencies for empowerment of weaker sections amongst target group. NSS introduced for women beneficiaries living below poverty line, with concessional interest rate of four per cent against six per cent for other loans was not properly promoted in spite of high demand. As against the disbursement of ₹ 7.75 crore (2102 loanees) made during first three years the disbursements during next three years, were only ₹ 2.78 crore i.e., 35.87 per cent (646 loanees). The scheme was suspended (April 2005 to December 2006) by the District Offices at Alleppey and Thrissur for reasons not on record. The fact that Company also disbursed loans for self employment under the normal scheme to women beneficiaries, who were otherwise eligible for loans under 'New Swarnima', indicates that proper publicity of special schemes were not given. Likewise, the educational loan scheme was prioritised by national agency for women, physically impaired and dependents of war widows among target group. The application form prescribed by Company, however, did not contain any provision to indicate such special status of applicant meriting priority.

The Company stated (August 2007) that income certificates issued by revenue authorities were not dependable and therefore, it used to deny the loans to 'not so deserving' applicants. Company, however, added that steps to promote these schemes on priority basis are being taken on the basis of audit observation.

* Average interest rate on term deposit during 2000-2004.

Identification and selection of beneficiaries

System deficiencies in selection of beneficiaries

2.2.17 As referred to in paragraph 2.2.8 supra, the schemes of the Companies were essentially meant for providing loan-assistance to families belonging to target communities living below double the poverty line. As per system followed in the organisations, an applicant has to furnish income certificate issued by Village Officer for determination of financial status of the applicant.

However, the income certificates given by Village Officers were not wholly reliable and contradictory. In 13 out of 160 cases test checked, applicants had produced income certificates showing annual income below double the poverty line and at the same time, furnished their spouse/family members as sureties, who were employees in Government. Ignoring the discrepancy, the Companies had sanctioned loans to these ineligible applicants. CC Corporation had facilitated production of such improper certificates of income by requiring (in the application form) the Village Officers to certify only the individual annual income of 'applicant' contrary to NBCFDC stipulation of considering the annual income of 'family'.

None of the three Companies had devised and put in place an efficient mechanism to cross check and ensure that the income certificates furnished were genuine.

- The system of recording the loan assistance in the ration cards of the beneficiaries so as to guard against drawing of assistance by more than one member of beneficiary family or from more than one lending agency was also not scrupulously followed except in the case of BCDC. Audit also came across a specific instance of drawing of self-employment loan by an individual loanee from both CC Corporation and BCDC.
- Test checks disclosed that the CC Corporation Headquarters at Kottayam disbursed 51 per cent of the loans in Kottayam district itself. A further scrutiny disclosed that 81 per cent of the disbursement from head office were in Kottayam district with only 13, 3, 2 and 1 per cent in Idukki, Alappuzha, Ernakulam and Thrissur districts respectively under its jurisdiction. Similarly, 65 per cent of the loan disbursements from Company's Regional Office at Thiruvananthapuram were in Thiruvananthapuram district whereas other districts of Pathanamthitta and Kollam served by it got a share of only 27 and 8 per cent respectively. In respect of the other Regional Office at Kozhikode, 42 per cent of the disbursements were made in Kozhikode district, the share of other districts under it viz. Kannur, Wayanad, Kasaragode, Malappuram and Palakkad being 29, 15, 11, 3 and nil per cent respecitvely. Thus the Company failed in effectively reaching out to its target group across the state and distributing the loan assistance in an equitable manner.

- The Management had also disclosed (February 2004) that 30 per cent of the beneficiaries under Agricultural Land Purchase Scheme were selected on the basis of recommendations of political and social workers implying that the selection was not transparent. The Company had also disbursed loans extending relaxations in age, annual family income, surety norms, etc.

- All the three Companies relaxed the surety norms on case to case basis by accepting sureties with net salary below the prescribed minimum and also having remaining service periods just sufficient to cover the repayment period without having adequate extended time to guard against possible defaults in repayment.

- As per terms of lending stipulated by NSFDC, loans under self employment schemes were meant for members of target communities who were not having proper means of livelihood, and therefore, existing entrepreneurs as well as those who have already availed of self employment loans from Company or any other Government agencies were not eligible for loan assistance under the scheme. No foolproof system was in place in SC ST Corporation to ensure that loan applicants under the scheme were not existing entrepreneurs or earlier beneficiaries. Audit also came across 3 cases out of 35 test checked in which self employment loans were disbursed to existing entrepreneurs. This in effect amounted to denial of loan assistance to other deserving members of the community as the loans were given on selection basis limiting the loanees to the targets fixed each time.

Absence of post disbursement monitoring

2.2.18 Except in the case of a few of the schemes operated, the Companies have not been conducting any kind of post-disbursement monitoring of loan utilisation. The Companies as well as national agencies prioritised on low value loans of less than 50,000 under revised lending policy. Further the Companies relaxed the requirements of utilisation monitoring. According to the terms of lending fixed by National agencies/Companies these loans did not require any pre-disbursement scheme study or post disbursement field visits. It was only in cases of default when the field officers of these Companies used to conduct field visits and even when concrete cases of misutilisation of loan were reported, no action was taken to demand repayment of loan with interest at penal rates, as envisaged in the loan agreements. Out of 50 cases test checked, in three cases each in SC ST Corporation and CC Corporation and four cases in BCDC, the companies failed to initiate recovery action.

SC ST Corporation admitted (August 2007) that absence of utilisation monitoring systems was the major drawback in its operational framework. The Company, however, attributed it to non-availability of required funds assistance from Government. In the opinion of audit, the available funds itself should have been utilised in such a way that the allocable share of expenditure on utilisation monitoring was spent for that purpose. The schemes did not envisage additional fund support for utilisation monitoring.

BCDC, however, confirmed (August 2007) the audit finding and assured to make the monitoring systems more effective by deploying additional manpower.

Specific cases of irregular loan assistances of higher amounts noticed in test check are discussed below:

Loans to Co-operative Societies

2.2.19 With the objective of aiding co-operative ventures promoted by target groups, SC ST Corporation disbursed (December 1978 and November 1998) loans aggregating ₹ 70.48 lakh to 13 co-operative societies. All the societies defaulted repayments and accumulated (March 2007) arrears of ₹ 1.24 crore. Management stated (August 2007) that most of the societies got liquidated after a short span of time due to mismanagement and political interference.

Improper loan assistance to a charitable society

2.2.20 The MD of SC ST Corporation, sanctioned (March 2001) a loan of ₹ 1.70 lakh to Ambedkar Committee, a charitable society for starting a unit for making file boards, as a self employment venture, against security of machinery and other assets of the society and collateral security of members. The loan was disbursed (November 2001) at interest rate of seven per cent. The repayment of the loan was to commence from March 2002 at ₹ 3,450 per month. The loanee remitted only first three instalments and defaulted further repayments. The dues from the loanee as of March 2007 were ₹ 2.43 lakh.

The following irregularities were noticed:

- Out of eight society members the President, Secretary and one member were from the same family with same residential address. Before disbursement of the loan, the Company was aware that the Secretary of the Society (main applicant) had defaulted in repayment of an earlier assistance from the Company. Fact is that defaulters were not entitled to a second loan.
- Despite default in repayment since June 2002, the Company did not take any action to realise the dues despite recommendation (July 2005) by Company's Regional Manager to initiate RR action against the loanee. Further, one of the signatories to the memorandum on formation of the society alleged (July 2005) that she was not having any connection with the society and that her signature put in the memorandum was forged.

Irregular loan disbursements under foreign education scheme

2.2.21 The foreign education loan scheme formulated (1998) by SC ST Corporation envisaged need based loan assistance up to a maximum of ₹ 10 lakh to SC/ST students for pursuing higher studies abroad. The loan attracted interest at six per cent per annum for amounts up to rupees five lakh and 8.5 per cent for amounts in excess of rupees five lakh. Repayment of the loan was to commence after six months from the date of completion of educational course or on acquiring a job whichever was earlier.

Though the scheme was in existence for the last eight years, only three beneficiaries could be provided with the loan assistance so far (March 2007). The case studies also disclosed that all the three loans were disbursed by the Company relaxing terms and conditions, accepting invalid documents, and extending undue favours as discussed below:

- Dr. Avinash Sudhakaran who applied (February 2003) for an assistance of ₹ 7.50 lakh for acquiring MRCP/FRCS* from London was disbursed the loan (₹ 7,12,500) by waiving the conditions as to beneficiary contribution (₹ 37,500), and payment was made directly to the applicant instead of the foreign educational institution as envisaged in the scheme. Further, the loan was granted before getting admission to the course of study. Enquires disclosed that the beneficiary did not actually pursue his proposed course of study abroad but returned to India after three months (July-September 2003) and joined Thiruvananthapuram Medical College. On confirming the misutilisation, the Company demanded (March 2005) repayment of the loan with interest accrued up to 31st March 2005 amounting to ₹ 9.13 lakh. Based on a representation from loanee, the recovery was kept in abeyance as directed (April 2005) by the Government. Even though instalment facility was allowed, the loanee failed in making regular remittances. The action of the Company in extending the facility of monthly repayment and reduction of penal interest from four to two per cent was not justifiable in view of the breach of contract by the beneficiary.

The Management stated (August 2007) that the beneficiary paid ₹ 2.58 lakh in May 2007 and the BOD had decided (June 2007) to recover the balance amount of ₹ 8.05 lakh in lump sum charging applicable penal interest, as recommended in Audit.

- Another beneficiary, Dr. M. Sureshkumar was granted (August 2000) loan of ₹ 1 lakh for higher studies in United States of America. As per his loan application, the applicant was domiciled at Thrissur since 1987. The loan was sanctioned (August 2000) accepting an outdated income certificate issued (1998) byVillage Officer.

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* Member of Royal College of Physicians/Fellow of Royal College of Surgeons.

- In the case of Shri Sajan, S. J., the loan of ₹ 8.50 lakh was granted (August 2000) relaxing conditions of educational qualification, annual family income and beneficiary contribution. The repayment of the loan was to commence from June 2002 and to be completed by June 2007. There was default in repayment and the amount recoverable as of December 2006 worked out to ₹ 7.88 lakh. Meanwhile, one of the sureties (mother of the loanee) for the loan retired (June 2005) from service. Apart from issuing demand notices to loanees/sureties, no firm action had been initiated by the Company to enforce the recovery.

The Management stated (August 2007) that the loanee has remitted (May 2007) ₹ 5.70 lakh and the balance amount due was ₹ 2.43 lakh.

Disbursement of loans to selected beneficiaries

2.2.22 All the three Companies followed the system of inviting applications for loan assistance, at periodical intervals, in anticipation of funds allocation by National Agencies. The applications were being invited through mass media. List of selected applicants was also being cancelled as and when funds allotted for a particular period were fully distributed.

Non-empowerment of target group

2.2.23 The basic objectives of these Companies also envisaged empowerment of the target group by conducting necessary awareness campaign and imparting training for skill development, simultaneously with the funds assistance. BCDC could conduct 25 number of training sessions whereas the other two companies did not undertake any such exercise. Since most of the beneficiaries were unable to make productive use of the funds assistance, repayment performance was very low against the schemes in operation.

Inefficient repayment monitoring systems

2.2.24 The enforcement of systems in vogue for watching the repayment performance and its monitoring was deficient in all the three Companies. The Companies failed in keeping the loan ledgers up-to-date, CC Corporation did not prepare the Demand Collection and Balance (DCB) Statements on monthly basis. Audit scrutiny revealed that the figures in DCB prepared by other two Companies did not reflect the factual position of collection efficiency. The major short coming noticed was that the ‘demand’ did not include penal interest leviable on defaulted Equated Monthly Instalments (EMIs), whereas the ‘collection’ included recoveries including penal interest. Premature repayments were also being included in ‘collection’ although it did not form part of the ‘demand’. As a result, the DCB statements have been reflecting recovery efficiency (2002-07) ranging between 67.96 and 69.87 per cent on an annual basis for SC ST Corporation and 83.45 and 86.85 per cent for BCDC.

- The recovery efficiency of the district level offices showed wide variations. In respect of SC ST Corporation, the percentage of collection to demand varied between 52.83 and 87.79 among the different unit offices during 2002-07. In the case of BCDC, the variations were in the range of 73.16 per cent and 98.02 per cent. This indicated variations in quality of performance of different unit offices.

- The reason for the low rate of repayments was slack monitoring systems prevalent in the Companies. Although the Companies had stipulated time bound action for progressive follow-up of repayments, viz. issue of demand notices to loanees, action against sureties, RR action, etc., there were delays and inaction in initiating recovery action and follow-up. Test check conducted in this connection disclosed that in respect of loans like educational loan from SC ST Corporation, the Company failed to communicate the schedule of repayment for one to three years after completion of study. In the case of CC Corporation no recovery action was taken against 57 default cases test checked despite lapse of one to four years.

- Similarly action against sureties of defaulters was not initiated at the appropriate time. In 48 out of 115 cases test checked, such action was pending even after retirement of sureties when salary recoveries were no longer possible. The Companies, however, did not maintain any permanent record to watch the compliance of recovery from sureties with a view to systematise the demand and collection. In its absence there was huge pendency in initiating recovery action.

- The loanee defaulters of CC Corporation included three of its legal advisors during January 1999 to November 2003. One of the legal advisors settled his loan outstanding to enable his wife to avail of a self-employment loan of ₹ 47,500 in November 2003. No repayment was made by her and the balance outstanding (March 2007) amounted to ₹ 59,662. The other legal advisors availed (November 1999 and March 2000) the loan during their period of service with the Company and the arrears in repayment recoverable from them as at the end of March 2007 amounted to ₹ 31,550.

- Action for enforcing recovery through RR measures had also not been successful. The success percentage was only about 27.36 in SC ST Corporation. In respect of BCDC it was 22 per cent and eight per cent respectively in the two district offices of Kottayam and Thrissur. Other district offices did not separately ascertain the recovery percentage. As regards CC Corporation there were no regular and systematic revenue recovery measures and no records were maintained to monitor the progress of such action. In the case of RR action taken against loanees under OLP schemes, the recoveries through RR were quite negligible as the properties furnished as security for the loans did not fetch values any where near to the values assigned to them at the time of loan disbursement.

Apart from the failures in recovery action mentioned above, the inadequacies in collection machinery existing in the organisations also caused poor repayment performance. The existing system of remittance of the loan instalments to the district offices/regional offices was inconvenient for loanees from far off localities in the district.

SC ST Corporation confirmed (August 2007) the audit finding and stated that efforts are being taken to strengthen the recovery measures by forming recovery cells at district office level. BCDC, however, maintained that its recovery performance was good and that the National Agencies had rated its performance as best. The fact, however, remained that the recovery percentages being projected by the Company in its DCB statements were erroneous as already stated, in reply to which the Company had also agreed to set right the mistakes.

One Time Settlement (OTS) of loans

2.2.25 In respect of loans disbursed by all the three Companies under old lending policy (OLP) of National Agencies, the Companies did not take regular follow-up action for obtaining repayments and thereby most of the loanees were rendered chronic defaulters. The securities accepted for these loans were also inadequate. The uncollected demands towards loan repayments in respect of SC ST Corporation and BCDC as of April 2002 were ₹ 20.90 crore and ₹ 9.65 crore respectively. As CC Corporation did not either maintain proper accounts of loans or DCB statements, the magnitude of arrears in collection were not ascertainable. In order to realise the old dues to the possible extent, SC ST Corporation operated (June 2004 to June 2007) OTS schemes for three spells* and recovered ₹ 3.53 crore after waiver of penal interest and part of regular interest of ₹ 0.80 crore in 3350 cases. BCDC operated (October 2002 to March 2007) OTS schemes in four spells† and recovered ₹ 7.31 crore after waiver of penal interest of ₹ 2.38 crore in 5366 cases.

* June 2004 to December 2005, August 2006 to January 2007 and February 2007 to June 2007.

† October 2002-December 2002, March 2004-June 2005, November 2005-March 2006 and December 2006-March 2007.

Even after operation of OTS for such long durations, both SC ST Corporation and BCDC left uncollected (March 2007) outstanding due of ₹ 30.73 crore and ₹ 39.43 crore respectively as of March 2007. As against a total number of 2820 OTS notices issued by SC ST Corporation during 2006, 398 notices were returned undelivered, indicating that there were loanees who were no longer traceable or disinterested in settling the repayments under OTS.

Absence of impact assessment

2.2.26 A constant system of post implementation impact assessment of the schemes was not in existence in any of the Companies. The absence was attributed to infrastructural and manpower constraints.

High cost of service

2.2.27 SC ST Corporation had been spending 36.06 paise for every one rupee of loan assistance and in the case of CC Corporation it was 24.35 paise for every rupee. BCDC could, however, contain its service cost between 4 to 10 paise per rupee among the different district offices.

High rate of administrative costs at SC ST Corporation and CC Corporation was due to the very low volume of loan disbursements coupled with growth in administrative costs. While the loan disbursements by SC ST Corporation recorded a fall of 30.71 per cent during 2002-2007 when compared to immediately preceding five years (1997-2002), there was growth in administrative cost to the extent of 49 per cent.

When the population of its target community was around 35 lakh (as per 2001 census) it could render assistance only to 6312 families during 2002-2007, the gross amount of loans being ₹ 32.70 crore as against ₹ 47.19 crore disbursed during preceding five years (1997-2002) among 10818 families.

In the case of CC Corporation average annual income during 2007 from lending activity was only ₹ 31.01 lakh against its administrative cost of ₹ 43.33 lakh per annum.

SC ST Corporation stated (August 2007) that measures were being taken to scale up the business volume so as to bring down the operational expenses to acceptable levels.

Agricultural land purchase scheme

2.2.28 The most popular loan assistance scheme of SC ST Corporation had been the traditional scheme for Agricultural Land Purchase (ALP). This scheme having unit cost of ₹ 1.50 lakh, with loan and subsidy component in the ratio of

2:1 was being implemented by the Company since 1999-2000 replacing the earlier scheme of lending amounts in the range of ₹ 10,000 to ₹ 25,000. Funds were made available from national agency (NSFDC) since 2000-01 and by 2002-03, they were the major source of finance for loan portion.

Out of ₹ 24.20 crore, available towards subsidy for the scheme, the Company utilised only ₹ 9.98 crore during 1998-99 to 2006-07 leaving an unutilised balance of ₹ 14.22 crore. Due to poor repayment performance, the Company was constrained to restrict the loan assistance to the required minimum, to satisfy the sectoral allocation of funds by national agency which required 50 per cent of gross loan assistance for agricultural and allied projects. The repayment period of loan ranged between 8 and 12 years. The land purchased by the beneficiary was mortgaged to the Company as sole security for the loan, till its repayment was over. Most of the beneficiaries were, however, not using the land purchased through the scheme for agricultural operations.

Though the mortgage deeds pledged by loanees permitted the Company to realise the dues by selling the land, the Company totally failed in enforcing this provision in any of the cases of default. The Management proposed (September 2003) to obtain the services of an officer not below the rank of a Tahasildar to accelerate the recovery action of ALP Loans which constituted 53.01 per cent of loan disbursements. The proposal was not replied to by the Government (August 2007).

The following table provides details of repayment performance of ALP Schemes implemented by the Company:

(₹ in lakh)

Schemes	*Demand*	*Collection*	*Balance*	*Percentage of recovery*
ALPS (Old Scheme)	1261.07	722.14	538.93	57.26
ALPS (NSFDC original scheme)	462.19	104.96	357.23	22.71
ALPS (NSFDC new scheme)	115.93	34.39	81.53	29.66
ALPS (State fund)	2.49	1.37	1.07	55.02
Total	1841.63	862.86	978.77	46.85

It would be seen from the table above that the modified scheme implemented from 1999-2000 onwards, with a view to improve its performance, did not yield the desired results since the recovery percentage was 29.66 as against

57.26 per cent for old scheme. The Company could not fulfill the social objective, on account of non-utilisation of land by the beneficiaries. Non-recovery of substantial amounts also weakened the financial viability of the Company.

Irregularities noticed in the scheme implementation are discussed below:

- As per the conditions of assistance, the documents of the property purchased were to be registered in the name of both husband and wife of the beneficiary family. In 14 out of 42 cases test checked the land was registered in the name of single individual.
- As the fund assistance was linked with subsidy of up to ₹ 50,000 per loanee, the company had to ensure that beneficiaries did not part with the property acquired to derive undue financial gain by selling off the property. For this, the Company should have kept the property papers with it till the end of the repayment period, even if the loanees foreclosed the loan account. The Company, however, returned the documents in 53 such cases involving subsidy payment of ₹ 25.81 lakh. The loanees in these cases closed their account within 19 to 86 months from drawing the loan.
- Out of 527 ALP loans amounting to ₹ 58.98 lakh disbursed from Thrissur district, which were past their repayment period (12 years), it could recover only ₹ 8.07 lakh from the loanees and the balance amount of ₹ 1.84 crore (Principal ₹ 0.56 crore and interest ₹ 1.28 crore) was outstanding (March 2006). RR action was initiated only for 264 cases while as per the prescribed procedure RR action was required to be taken as and when the loanee defaulted five consecutive instalments. In 60 cases test checked in which loans were disbursed (March to August 2000), no repayments were received till the end of 2005-06. The Company did not initiate any RR action against these defaulters.

The performance of ALP scheme implemented by CC Corporation since inception was also very poor. Out of a gross amount of ₹ 42.67 lakh disbursed under the old scheme between September 1985 and June 1995 only ₹ 6.40 lakh could be recovered up to 2005-06, towards principal, the overall position of arrears being as follows:

(₹ *in lakh*)

Particulars	*Demand*	*Collection*	*Balance*
Principal	42.67		
Interest	23.40	13.16	63.78
Penal Interest	10.87		
Total	76.94	13.16	63.78

Out of 433 loanees, 126 loanees who were paid ₹ 17.12 lakh did not make any repayment and only 24 loanees made the repayments in full (₹ 4.93 lakh).

In spite of the high rate of default and the long pendency in loan settlement, the Company did not take any stringent action to realise the overdue amounts. It was reported (July 2000) that majority of loan applications were received from Kottayam and Alleppey districts for purchase of water logged paddy fields for which there were no buyers when offered for sale as per RR action. As the recovery rate of ALP loans continued to be discouraging, the Board decided (November 2002) to restrict the loans to cultivable land (dry land) alone. The decision was later amended (March 2005) allowing sanction of loans without strictly restricting it to dry lands, but giving priority to dry land.

It was, however, noticed that out of 227 loans sanctioned (2005-06) thereafter, 155 loans (68.28 per cent) were for purchase of wetland. The repayment performance of loans given on the security of wetland was also poor compared to that of dry land. The low rate of recovery was mainly attributable to improper pursuance. While the repayments were to commence 24 months after disbursement of loan, the beneficiaries were not even served with a repayment schedule either at the time of commencement or afterwards. Further, in the absence of records, the Company was not aware of the number of cases for which it lost its claim of recovery as per the Law of Limitation.

Individual case studies of ALP Loans revealed many cases of irregular sanctions and disbursement, as discussed below:

ALP Loans amounting to ₹ 15.75 lakh was paid to a group of 21 beneficiaries for purchase of two adjacent plots on sharing basis. The land value as assessed (December 2002) by Tahsildar was ₹ 3,000 per Are* (₹ 1,220 per cent) at which rate the total value came to ₹ 5.39 lakh. Without authority, the Administrative Officer of the Company assigned a higher value of ₹ 2,500 per cent in 13 cases and ₹ 3,600 per cent in 8 cases and the total value of land went

* One Are is equal to 100 square metres.

up to ₹ 15.75 lakh. Loans were disbursed adopting this higher valuation, even without limiting it to 80 per cent of value as required under the scheme. There was, thus excess disbursement of loan to the extent of ₹ 10.36 lakh. The beneficiaries defaulted repayment of the loans, the amount defaulted (January 2007) being ₹ 3.03 lakh.

The matter was enquired (2004-05) by the Vigilance Department and they recommended appropriate action. No action had been initiated so far (May 2007).

An applicant in her loan application (February 2000) had indicated her date of birth as 17th February, 1946 and the age as 54 years. The age certificate submitted also certified her age as 55 years, which was the maximum age-limit prescribed for the loan. At the instance of the Company, the applicant produced another certificate as issued by a Government Doctor without indicating date of issue, as per which, the applicant was aged 52 years. The fresh certificate was accepted (March 2003) for the purpose of sanctioning loan for ₹ 75,000. Acceptance of invalid age certificate, when the applicant was actually aged 57 years and ineligible for loan, was irregular.

Under the ALP Scheme implemented with funds provided by State Government, loan amount was to be restricted to 80 per cent of the cost of land or the maximum limit of loan, whichever was less indicating that 20 per cent of the cost of land was to be contributed by beneficiaries. In violation of this approved condition, the Company released 100 per cent of cost of land as loan assistance in respect of 329 loan applications sanctioned during the period 2000-01 to 2005-06, the excess payment being ₹ 40.77 lakh.

In spite of the proven failure of the scheme both the companies (SC ST Corporation and CC Corporation) continued to implement it without any significant change, reasons for which were not on record.

Management of SC ST Corporation stated (August 2007) that it has taken serious note of the audit finding and the Company will continue to implement the scheme in a more scientific manner, imparting training to assisted beneficiaries in modern and innovative fields of cultivation like floriculture and horticulture.

Specific Audit Findings

Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited.

Educational Loan Assistance

2.2.29 The Company formulated (January 2000) an educational loan assistance scheme under which students belonging to SC/ST with annual family income below rupees one lakh were eligible for loan of up to ₹ 50,000 for higher studies within the state and ₹ 10,000 outside the state. An amount of ₹ 80.58 lakh was disbursed under the scheme to 180 beneficiaries up to 2006-07.

A review of 30 out of 180 cases revealed that:

- While payments under educational loans were to be made to respective educational institutions in order to ensure proper utilisation, the Company disbursed the loan amounts directly to the beneficiaries in all the 30 cases, involving ₹ 13.09 lakh without insisting on proper utilisation certificates from the educational institution.
- Loans amounting to ₹ 5.45 lakh were disbursed by Kollam District Office in lump sum at the beginning of the course itself, instead of need based instalments as stipulated by the Head Office.
- While repayment schedules were to be fixed and communicated at the time of completion of course of study or on getting employment, whichever was earlier, in four cases at Thrissur District Office involving ₹ 0.92 lakh, the repayment schedule was not fixed and communicated even after three to four years from the date of course completion. Thus, repayments were not obtained from the beneficiaries.

Micro Credit Finance Schemes

2.2.30 NSFDC devised Micro Credit Finance Scheme for implementation from 2000-01 under which soft loan assistance was provided to members of scheduled castes living below double the poverty line to promote income generating activities of their own. The loan and subsidy content of the assistance initially fixed as ₹ 5,000 each was enhanced from time to time and remained at a maximum of ₹ 25,000 (₹ 15,000 as loan and ₹ 10,000 as subsidy) with effect from 1st April, 2003. The interest payable by the beneficiaries, was reduced (April 2003) from seven to five per cent. NSFDC informed the Company (December 2001) that there was no constraint in providing funds. Yet the Company could draw and utilise only ₹ 3.34 crore during the five years up to 2006-07 as against ₹ 4.53 crore targeted.

While the Scheme envisaged payment of subsidy out of funds provided by State Government, the Company discontinued (November 2001) release of subsidy for want of assistance from the Government. Non-release of subsidy was one of the reasons for the lower demand for the loan since the loan component alone was inadequate for launching any successful livelihood activity. For the same reason, the rate of repayment of the loans disbursed under the scheme was also as low as 50.20 per cent, in spite of the lower rate of interest of 5 per cent. The under performance of micro credit schemes implemented by the Company was also due to absence of post-disbursement monitoring of loan utilisation.

The Management stated (August 2007) that the beneficiaries of the Scheme belonged to most underprivileged group whose business acumen and competence was inadequate to run even a micro enterprise. It was also stated that reported instances of diversion of loan funds for other exigencies like marriage, hospital treatment, etc., were also attributable to poor scheme performance. The reply brings out the fact that the company did not select beneficiaries having suitable entrepreneurship skills nor did impart proper training to them for empowerment. Company also failed to conduct post disbursement monitoring.

Mahila Samridhi Yojana

2.2.31 During 2003-2004 NSFDC introduced a special scheme named 'Mahila Samridhi Yojana' in the line of micro finance, exclusively for women beneficiaries. As against the lending rate of five per cent fixed for micro scheme, it was four per cent for the new scheme. Based on population census, NSFDC notionally allocated funds aggregating ₹ 76.91 lakh for the three years from 2004-05 to 2006-07. Out of this only ₹ 30.60 lakh was utilised as of March 2007. Thus, the company short utilised an amount of ₹ 46.31 lakh allocated by National Agency, and also suspended (January 2006) the scheme implementation, when the allotment for first year was fully utilised and fresh allocation was awaited. The loan applications received during the interim period were sanctioned under the normal scheme of 'micro finance' at higher rate of interest in 6 out of 30 cases test checked in audit.

It was further observed that even after resuming (September 2006) the Mahila Samridhi Yojana, the Company had disbursed micro finance assistance to women applicants under the regular scheme, at higher rate of interest.

Thus, the company failed in channelising the due share of assistance to women beneficiaries and also did not give priority to the scheme despite lower rate of interest and better repayment performance (62.48 per cent as against 50.20 per cent for conventional scheme)

Non-release of subsidy

2.2.32 The beneficiaries of the Company who belonged to Below Poverty Line (BPL) group, were eligible for subsidy amounting to 50 per cent of loan amount or ₹ 50,000 whichever was lower, in respect of Company's lendings for income generating activities. As the fund allotments in State budgets were not being released on a regular basis, the Company discontinued payment of subsidy from November 2001. When the State Government released (March 2006) an amount of ₹ 1.30 crore towards arrears of subsidy, the Company partly credited (August 2006) the amount of eligible subsidy in the respective loan accounts without ensuring proper utilisation of the loan amounts for the stated purpose and partly disbursed (2001-03) ₹ 72.03 lakh to the loanees who had already repaid the loans in full.

Non-release of subsidy along with the loan amounts had adversely affected the scheme performance as the loan amount itself was inadequate for successful launching of the activity. Release of subsidy after a delay of three to four years by adjustment against dues did not serve purpose of the scheme.

Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited

Vigilance cases against employees

2.2.33 Following complaints about irregular sanction of loans by the Company, the Vigilance and Anti-corruption Bureau, Kottayam investigated into the transactions of the Company from 1994 onwards and detected 65 instances of loan sanctions (₹. 53.81 lakh) based on forged documents. Cases were filed against employees and one former MD.

Out of 16 permanent employees of the Company, 8 were involved in cases under investigation among whom three were under suspension from June 2005.

Another case of disbursement of loan assistance of ₹ 4.68 lakh to 17 nursing students to undergo paramedical course conducted by a private hospital, with guaranteed placement, was also under investigation by Vigilance. In this case, the scheme was implemented without obtaining Government approval and the course certificates were issued by the Company and not by the hospital.

Inadequate coverage of target group

2.2.34 Under the marriage loan assistance, the Company had been providing financial assistance up to a maximum of ₹ 25,000 at the concessional interest rate of 4 per cent and penal rate of 2.5 per cent per annum. The loan was repayable in 60 instalments. At the same time, BCDC from which company's target community was also eligible for assistance had been operating marriage loan assistance levying interest at 8.5 per cent and penal rate of 18 per cent, the maximum loan amount being ₹ 30,000.

It was noticed that despite lower rate of interest, the company could disburse only 53 loans from its Headquarters at Kottayam as against 65 loans by the district office of BCDC at Kottayam during the three years up to 2005-06. The poor performance of the Company was mainly due to delay in processing and disbursement of loans.

Kerala State Backward Classes Development Corporation Limited

Non-utilisation of interest margin

2.2.35 With a view to strengthen the infrastructure of its State Channelising Agencies (SCA), NMDFC has been reimbursing additional interest margin equivalent to 25 per cent of the interest actually repaid by SCAs during previous year. The entitlement of a particular year could be availed during the succeeding two years failing which it lapsed. The said funds could be utilised by SCAs for infrastructure related expenses such as purchase of vehicles, computers, consultancy expenses for surveys, loan recovery related expenses and such other promotional expenses.

Out of the eligible rebate of ₹ 27.47 lakh for 2004-05 the Company utilised only ₹ 21.06 lakh during the next two years and the balance amount of ₹ 6.41 lakh lapsed. There was no justification on record for foregoing the financial assistance in areas of infrastructure development, impact studies, engagement of recovery agents, etc.

The Management stated (August 2007) that the lapsed amount was earlier earmarked for purchase of new vehicle to replace old ones and delay in disposal of old vehicles, caused the non-utilisation. The reply is not tenable since the fund could have been utilised to meet expenditure towards loan recovery, impact studies and infrastructure development.

Cash Loss on implementation of Housing Finance Scheme

2.2.36 During the years 1998-99 and 1999-2000, the company operated a housing finance scheme among Low Income Group (LIG) and Middle Income Group (MIG) of target community, availing finance from HUDCO. While the borrowings were at the rates of interest of 13 per cent annum (LIG) and 15 per cent per annum (MIG) the lendings were at the rate of 13.5 per cent per annum and 16 per cent per annum respectively. The Company disbursed 882 loans under the scheme, amounting to ₹ 6.38 crore.

As the interest rate charged by HUDCO was found to be quite high, the loan was short closed (December 2000) by availing of another loan from Union Bank at interest of 10.5 per cent per annum, which was later reduced (August 2004) to 7.5 per cent per annum. The rate of interest of company's loans was correspondingly reduced to 10.5 per cent per annum in January 2003 and 8 per cent in August 2004, for both LIG and MIG.

The repayment performance of the loans was poor and it ranged between 71.04 per cent and 74.68 per cent during the five years up to 2002-07. The uncollected demand as at the end of 2006-07 was to the extent of ₹ 2.22 crore.

According to the Management (August 2007), monthly repayment liability disproportionately higher than the income of beneficiaries coupled with unproductive nature of investments caused the high rate of defaults.

The Company introduced (October 2005) a scheme for settling the outstanding loan amount by waiving 100 per cent penal interest and up to 50 per cent of interest as determined on the basis of Adalat. Out of 882 loans the Company settled 141 loan accounts with outstanding balance of ₹ 1.14 crore during the period January 2006 to May 2006 by accepting ₹ 82.05 lakh after waiver of ₹ 31.86 lakh.

It was further noticed that:

- The maximum interest margin that the Company collected under the scheme being only 0.5 per cent for LIG and 1 per cent for MIG, waiver of normal interest up to 50 per cent involved cash loss of ₹ 23.24 lakh.
- The company under its old lending policy (prior to 1st June, 1999) charged compound interest and credited the remittance from loanees, first against normal interest outstanding, then against principal and finally against penal interest. Under revised lending policy, the method of accounting was revised in the order of first charge to penal interest, then to interest and finally to principal, at simple interest rates. The repayments received under Housing Finance Scheme were to be adjusted as per Revised Lending Policy (RLP) system of adjustment. For the purpose of regularising the waiver given under OTS, the Company, however, reworked the loan balanced adopting Old Lending Policy (OLP) and ₹ 19.47 lakh already credited under 'Principal' and 'interest' was withdrawn and treated as penal interest for the purpose of sanctioning the waiver in respect of 119 loan accounts settled in Adalats. While doing so, the Company did not levy compound interest as was done for OLP loans.

Implementation of Micro Finance Schemes

2.2.37 In order to reach out to the poorest of the poor among the target group, who were in need of loans of, very small amounts but required it to be delivered quickly at their doorsteps, NBCFDC introduced (1998-99) the scheme of micro credit under which loan assistance were rendered to self help groups formed by target communities either directly or through Non-Government Organisations (NGOs). It was later decided (1999-2000) to involve SCAs also in implementation of micro credit schemes. Accordingly NBCFDC funds were available to SCAs for micro credit schemes from 2000-01 onwards. NMDFC also introduced (1998-99) micro credit schemes, initially through NGOs and later on (2001-02) through SCAs.

BCDC commenced (July 2001) implementation of micro credit schemes and disbursed (December 2006) a gross amount of ₹ 7.04 crore with NBCFDC fund assistance and ₹ 3.25 crore with NMDFC funds. These disbursements were made among 15 NGOs who were short listed on the basis of their applications and interviews. The Company was not involved in the distribution of funds by NGOs among SHGs.

The following deficiencies were noticed in the implementation of the scheme:

- The Company started implementation of the micro credit scheme in Malappuram district by distributing (July 2001) ₹ 4.75 lakh to Kudumbasree units. On findings the scheme successful, the company drew funds amounting to ₹ 1.45 crore from National Agencies, during November 2001 to November 2002. Due to delay in identification of NGOs, the Company could utilise only ₹ 34 lakh up to the end of March 2003. As further delay in utilisation of funds would have attracted levy of penal interest from lending institutions, the Managements selected (March 2003) seven NGOs in a hasty manner without assessing their financial status and distributed ₹ 1.15 crore without any tangible security. Eventually two* of the NGOs defaulted the repayments. The revenue recovery measures initiated against them failed and the arrears amounted to ₹ 28.53 lakh as of March 2007. Another NGO† financed earlier (November 2002) also defaulted repayment to the extent of ₹ 6.23 lakh as of March 2007.

The Management stated (August 2007) that it was mainly because of lack of experience in running the micro credit scheme that few of the NGOs selected and financed became defaulters.

The reply is nor tenable since judging the financial soundness and credit worthiness of an agency was not such a complex task that required high expertise and long experience for a Company managed by professionals:

- Although the Board constituted (March 2006) a sub-committee consisting of Chairman, MD and three Directors to evaluate the utilisation and social impact assessment, functioning of SHGs etc., and to submit a report to the Board within three months, no action had been taken (March 2007).

- It was stipulated (1998-99) by National Agencies that the annual family income of the beneficiaries selected should be below double the poverty

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* Bharath Sevak Samaj and Morarji Desai Charitable Society.

† Chakkala Community.

line and that priority should be given to families living below the poverty line and women beneficiaries. In respect of micro finance assistance rendered by the company, no document to substantiate annual family income of end beneficiaries was mentioned in the utilisation statements furnished by NGOs, though required to do so. Further, in respect of SNDP*, who were given the maximum amount of ₹ 4.75 crore, the income of all the 14496 beneficiaries whose loan details were test-checked in audit was below ₹ 2,000 per annum.

- The SCA should maintain separate books of accounts, including SHG-wise loan register, purpose-wise list of loans disbursed, etc. Such records were not maintained.
- The Company neither gave publicity for the interest rate charged on the target group with a view to eliminate the chances of NGOs charging higher rates of interest on the beneficiaries SHGs, nor did investigate whether the NGOs were collecting interest at rates higher than stipulate rate of 5 per cent from the members of SHGs, in order to ensure that the objective of the micro finance schemes were fulfilled.
- Out of a gross amount of ₹ 8.85 crore released by NBCDFC during 2001-06 for micro finance scheme, a net amount of ₹ 1.86 crore was diverted by the Company to general lending schemes. No fund was utilised by the Company for micro finance scheme during 2003-04 though ₹ 2.50 crore was released to it. A sum of rupees one crore received from NMDFC was also diverted for general schemes. Under the prevailing system, funds were being drawn from National Agencies in lump sum without proper planning of ultimate utilisation and the disbursements were made in distress, at the end of the time schedule fixed by National Agencies with a view to avoid penalties. The Company, therefore, did not give proper attention to the socio-economic aspects involved in the scheme implementation.

Special recognition by National Agencies

2.2.38 In spite of all the shortcomings and system deficiencies discussed above BCDC was rated by NBCFDC as its best performing SCA for 2001-02 and 2005-06 and second best for 2002-03 and 2004-05. Similarly NMDFC had also recognised it as second best among its 10 selected SCAs for 2004-05 for which cash award of rupees two lakh was also given.

Internal Audit and Internal control

2.2.39 Effective internal audit and internal control systems were not in place in any of the three Companies. Audit noticed following deficiencies in Internal Audit and Internal control.

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* Sree Narayana Dharma Paripalana Sangham.

Internal Audit

- SCST Corporation was having separate internal audit wing up to December 2004 and thereafter the internal audit was entrusted (January 2005) to a firm of Chartered Accountants. The scope of work of internal auditors was not defined. None of the unit offices had reported compliances to the internal audit reports for the year 2003-04. In respect of 2004-05, only four out of 11 units responded to the report issued in March 2006.
- CC Corporation was not having a regular system of internal audit till February 2006. The agency engaged for updating accounts and carrying out internal audit was mainly engaged in reconstruction of accounts of the Company.
- There was no internal audit system in BCDC, even though its level of operations and turnover were much higher compared to the other two Companies and the activities highly decentralised. Cases of defalcation of cash, manipulation of records, etc., were detected by the company in their District Offices due to inherent system deficiencies and inadequate internal control. A case of misappropriation of funds of ₹ 14.10 lakh by a District Manager of the company was detected (March 2000) and is under investigation. Similarly, a watchman of District Office, Alleppey made fraudulent entries in loanees ledger and tampered with (2002-2005) 184 loan accounts and defalcation of cash worth ₹ 2.69 lakh was brought out in internal investigation conducted by company.

The Management stated (August 2007) that the internal audit systems were being introduced in accordance with a Board decision (March 2007) to that effect.

Internal control

- In CC Corporation essential basic records for loan transactions were not being maintained. Other than cash book, none of the records available were complete and up-to-date. Daily collection registers containing repayment particulars were maintained only from 1997-98. The postings in loan ledgers were not up-to-date. There were no records for watching recoveries from sureties and through revenue recovery measures. There was absence of codes and manuals for various schemes as well as competent middle level officers.
- CC Corporation have been operating accounts and placing short-term deposits aggregating ₹ 40 lakh (31st March 2006) with a private bank, in contravention of the Government guidelines.

- Reconciliation of bank accounts was pending in BCDC from 2001-02 for want of updated accounts. The fund transfers between its Head Office and District Offices were also not being regularly reconciled. Fixed Deposit Registers were not up-to-date. The deposits were not supported by proper certificates/confirmation statements.

SCST Corporation stated (August 2007) that it will review the present system of internal control and take steps to re-organise and strengthen it.

The above matters were reported to Government (June 2007) the reply had not been received (September 2007).

[Para 2.2—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2007.]

Notes on Audit Paragraph received from Government is given in Appendix II.

1. The Committee found that all the three corporations, especially the Christian Convert Development Corporation, were working without proper control and had neither made their accounts accurate nor finalised their annual accounts. The Committee observed that the Companies have not taken any action on the recommendations made in the 20th Report of COPU 2001-2004. The Committee wanted to know how the Companies functioned and expressed surprise as to how the funds received from the National Corporations were properly managed and utilised without finalisation of accounts. The Committee remarked that the Companies had made serious lapse in this regard. The Committee wanted to take immediate steps to solve this problem and enquired the reason for such an enormous delay in finalising the accounts.

2. The Committee also pointed out that among the three Companies only the Backward Classes Development Corporation had got registered with the RBI as a Non-Banking Financial Company and sought the reason for the other two companies not complying with this statutory requirement. Three years' arrear accounts of the Company was claimed to have been finalised. It was also informed that in CCDC out of 25 employees only 16 employees were permanent, 8 of whom were facing vigilance enquiry. As Accountant General had then permitted to finalise accounts for two years together the Company was hopeful to complete the remaining work soon.

3. The vigilance case was informed to be related to illegal distribution of loan. The witness admitted all the points raised by the Committee.

4. The Committee pointed out that the three Companies which were incorporated with the objective of overall upliftment of the targeted group had the

obligation to ensure that the funds received from the National Corporations are distributed in the right manner. The merging of the CCDC & BCDC was stated to be a matter of policy decision by the Government. The BCDC and SC/ST Corporation had grabbed the first and fourth position respectively among the best performing Corporations in their field.

5. Though the vigilance case with CCDC was initiated in 2005, even accounts before 2005 were found not up-to-date. Many records from CCDC were missing and it had accounts for only 5 years. Details of accounts before and after that were not available.

6. The Committee wanted the three Companies to strengthen their performance in order to ensure the upliftment of the respective Communities, for the benefit of which they were incorporated. The Committee expressed its doubt regarding the implementation of the debt waiver scheme introduced by Government for Christian converts due to the lack of accurate accounts regarding the details of the loan. The difficulty in implementing the scheme was accepted by the Company.

7. As per the audit report, the three Companies could help only a negligible 0.83% of the targeted population up to 31-3-2007. This was reported to be because the Company could not quantify the targeted communities as no socio-economic survey on the population of these communities had been conducted in recent years. It was informed that as per the statutory requirement of the Backward Commissions Act, once in every 10 years such a survey should be conducted. The caste based socio-economic status survey was generated last by the 1931 census. No survey of this nature has been conducted after that and hence quantification of targeted community was found to be a problem. The insignificant coverage of the target group was informed to be because of the absence of community such a socio-economic survey for quantifying the target group was expected to cost ₹ 12 crore, for which sanction of the Finance Department was yet to be obtained. It was also added that such a survey would be most beneficial to the Backward Classes Commission as it could be utilised for inclusion/exclusion of a community from the list of SC Communities, as all indicators for taking such a decision would be available in the data. Since Planning Board doesn't have a caste-wise data on Backward Classes, a special community-wise survey should be conducted on backward classes in order to obtain the required data.

8. Christian Converts Corporation was finalising the account of 1996-97 and as per its plan of action the account finalisation could be made up-to-date only by 2011. As the records regarding the details of the loan were not available in the Company, it depended on the available data and records for giving the loan waiver before accounts finalisation. Otherwise it would be very difficult to implement the loan waiver scheme. As per the declaration of the Government all loans up to 2006 were to be waived.

9. In Christian Converts Development Corporation the accounts were in arrears for more than 12 years. The Accountant General offered to help the Company in finalising the accounts. The Company had already engaged the service of a Chartered Accountant firm. In order to reconstruct the accounts, along with Statutory Auditors, other people were also engaged. The Committee suggested to make use of the assistance offered by the Accountant General in finalising the accounts and this was agreed to be made use of. With regard to the account finalisation of the BCDC & SC/ST Corporation it was informed that they would finalise their accounts by 2010 March and 2009 December respectively.

10. The Committee suggested to identify the districts to which large number of SC and ST categories belong and to ascertain whether they are getting the eligible loans.

11. The SC/ST Development Corporation was found distributing majority of the loans to applicants around its regional offices, instead of making an equitable distribution of loans. Though Regional Offices of SC/ST Corporation functioned in almost all districts sometimes loan was sanctioned to regions other than SC/ST pockets. The Committee recommended to rectify the practice of sanctioning loans by ignoring the people who live away from Regional Offices of the Company.

12. The Committee pointed out that the people in the northern districts were unaware of the anytime marriage loan and therefore the SC/ST Corporation should give enough publicity to it in a time bound manner. When it was informed that in the previous years the Company gave marriage loan to 529 persons, the Committee wanted to have the district-wise details of the marriage loan disbursement by SC/ST Corporation.

13. The Committee was disappointed to note that the three Companies have distributed loan to only 0.83% of the targeted population and wanted to know whether any action has been taken to increase the number of beneficiaries and whether there existed any financial difficulties to enhance the number of targeted beneficiaries. Other than budget allocations the Companies got assistance from National Corporation on the basis of Annual Action Plan. Along with this the internal accruals were also used for disbursing loan.

14. With regard to the measures taken by the Company as per the recommendation of the Committee in its earlier report on prompt repayment of loan and concessions allowed for repayment, it was reported that one time settlement facility was being allowed and waiver of penal interest was necessary to give motivation for repayment

15. Fund assistance from National Agencies and support grant from the State Government being assured the Companies could process the applications for loan well in advance, so as to avoid penal interest in case of non-utilisation of funds

allotted within the stipulated time of 90 days. Such a practise could help optimisation of loan assistance and avoid hasty identification of beneficiaries.

16. Though there existed a system of inviting application for loan in a particular period every year, the Companies had started granting any time loan. This system is now followed for all loans except land purchasing loan for agricultural purpose which comprises ₹ 50,000 as subsidy and ₹ 1 lakh as loan. This amount was found to be insufficient for purchasing land these days as price of land is sky rocketing and hence demands revision.

17. The witness stated that as BCDC has sufficient number of applications for all the loans. They could easily meet the dead line of 90 days stipulated for utilisation of central assistance.

18. Both CCDC and SC/ST Development Corporation had suspended their lending activities due to disruption in fund flow from National Agencies. The disruption in fund flow from National Agencies was either due to their fund constraints or due to non-provision/delay in provision of Government guarantee by the Companies. It is found that there was lapse both on the part of the Government and on the part of the Companies in giving/securing Government Guarantee. It was also submitted that the applications are verified before sanctioning loans. Before executing loan agreement field verification is also done in all districts.

19. The Committee opined that instead of inviting loan applications and processing them in advance, the Companies hurriedly sanctioned loans to non-eligible persons just to avoid penal interest for the funds received from the National agencies. This was admitted by the Government and it was informed to the Committee that steps are being taken to avoid the haste. The Committee stated that weak communities are being exploited as Companies are obtaining fund from National Agencies for the purpose of distributing loan, but very often returned without utilising.

20. The Companies had three sources of fund viz., from repayment by loanees, the equity fund from State Government and fund from the National level organizations. When they, fail to utilise the fund received from the National agencies, it would attract 6% interest in place of the normal rate of 3% per annum.

21. The Committee enquired whether there is any mechanism in the Company to ensure that loans are sanctioned by it to the actual beneficiaries who utilise them properly. The committee also wanted to know the action taken against the delinquent officers who failed to ensure this. It was then informed that some misappropriations have been found out and departmental action is being taken against the guilty. Some serious cases had been handed over to Vigilance Department.

22. Regarding under exploitation of the fund available from National Agencies by the Companies, it was submitted that in CCDC the action plan for withdrawal of fund according to the need of the beneficiaries had been approved and Government guarantee had been arranged. Also proper utilisation of fund was assured. The Committee pointed out that the Companies had failure in utilising the fund received from the National Corporations in the past years. Lack of block guarantee and insufficient staff were projected as the reasons for the same. When the Committee opined that scarcity of staff should have been brought to notice of Government then and there to find solution, the Committee was informed that as the administrative cost was already high in CCDC, proposal for increasing staff strength would not have been accepted by Finance Department. Moreover the previous functioning of the Company could not support to convince Finance Department on its demand for more staff to increase the volume of business.

23. The Committee sought the reason for the non-utilisation of funds drawn by SC/ST Corporation from National Safai Karmachari Finance Development Corporation for implementation of self employment scheme among Scheduled Caste scavengers. As LSGD had given an affidavit in the Supreme Court that there is no such section of people in Kerala, the Company could not distribute the fund. It was further stated that as 8% interest was obtained on the amount deposited, no loss occurred in the deal. The Committee wanted action to be taken against the officials who were responsible for drawing the amount without ascertaining the scope and potential of distribution. The Committee was informed that the amount was withdrawn by the Company in 2001 while the affidavit was filed by LSGD in 2004 only.

24. The Committee wanted to get the district-wise details of the loans distributed by the three Companies under various schemes and also the present position of the vigilance case pending in CCDC.

25. The Committee expressed concern that BCDC had not given enough propaganda for the special scheme of New Swarnima, introduced for deprived women living below poverty line, with a concessional rate of interest of 4% while other loans carried 6% interest. Under the Scheme, until then an amount of ₹ 12 crore 60 lakh was informed to be disbursed as loan to 3199 persons. A maximum amount of ₹ 50,000 is sanctioned as per the scheme and one surety is required. Hence people preferred other schemes since procedure for sanction of loan is easier and a higher amount of ₹ 1,00,000 can be obtained against one surety. It was a surprise to hear the contention that people preferred other loans bearing 6% interest when new Swarnima Scheme charged only 4% interest. The Committee enquired if the companies were not creating awareness about the loan among the public. It was informed that the details of the loan are displayed in the

brochure published by the Company. The Company justified that it could in no way gain financially by hiding the details of the loan scheme as New Swarnima Scheme as well as other schemes were equally beneficial to it. The Committee commented that the Company had not given enough publicity for the Swarnima Scheme and thus lack of awareness denied the opportunities of women beneficiaries to avail the loan with a concessional interest rate. The Committee directed that the Companies should promote the scheme rather than promoting and disbursing loans bearing higher rate of interest. It was then informed that advertisement about the Scheme is given through different communication means.

26. The Committee remarked that though the loan schemes have been formulated with the objective of raising the economic status of the respective sections of people, the Companies are not fulfilling their obligations and the actually deserving people are not getting the loan facility. It was then assured that the Government would try to rectify the shortcomings of the Companies in this regard.

27. The Committee opined that the Government has to take action against those who failed to do their responsibility and that responsibility should be fixed against those who sanctioned loan unauthorisedly.

28. Though it was informed that people preferred loans of ₹ 1 lakh at 6% rather than that of ₹ 50,000 for 4%, it was then assured that as per the suggestions of the Committee steps would be taken to give more publicity for the loan schemes. The Committee opined that there was no complaint about the schemes from the field as due to lack of publicity people were not aware of many schemes. Due to this lapse, without being aware of schemes available, public are not able to raise any complaint on such Schemes.

29. The Committee opined that if the Officials of all the three Companies contact Local Self Government Institutions they would give the required awareness about the scheme among the targeted group. It was then informed that every year information guide is printed and distributed to all Panchayats. It was agreed that necessary steps would be taken to display it on the Panchayat notice boards.

30. The Committee insisted that the Company should include the provision for priority for physically impaired and dependant of war widows in the application forms for educational loan Schemes. It was then assured that instructions would be given to include the provision in application forms, in future. When enquired about the reason for the sharp decline in the amount of loans sanctioned every year under the NSS, introduction of micro-credit executed through NGOs at lower interest rate without surety requirement was put forth as the reason. It was also added that in the current circumstances a project could

hardly be executed in Kerala with just ₹ 1,00,000 and hence consumers preferred to avail schemes providing maximum loan. When asked whether the NGOs are repaying the loan promptly it was replied that there was 100% recovery from the NGOs. The conditions prescribed for the NGOs in availing loan was three years' working experience and at least 1 year experience in micro credit financing. Further, their credit worthness, balance sheet and audit records for the previous 3 years are verified before granting loan. An amount has been fixed as credit limit and loans to NGOs have to be approved by the Company board. Separate account should be maintained for loans by NGOs from each Company. The National agencies conducted field verification on all these matters.

31. Regarding the present position of defaulted NGOs, their asset position and the mode of recovery, it was informed that collateral security was obtained from them and that some of the NGOs had assets worth crores of rupees. As per micro credit norms loans are provided to them up to 50% of net worth, taking into account the previous repayment records. Regarding income limit, for granting loan, it was informed that families belonging to target communities with income below double the poverty line were given loans. In a Self Help Group (SHG) containing 20 people if 75% are from the targeted community, people who belong to higher communities with less than twice the poverty line income are also eligible for the loan. Only NGOs which submit the list of beneficiaries within one month of distributing loan are granted loans.

32. The Committee pointed out that the CCDC had facilitated production of income certificates having discrepancy, thereby availing loan to ineligible persons. CCDC had allowed production of such improper certificate of income by accepting 'individual income' certificate instead of certificates showing 'family income'. This was admitted by the Company and it was informed that steps have already been taken to prevent such instances and that now income certificate is obtained from Village Officers in the format attached to the application form for loan. The Committee stressed the point that when NBCFDC had stipulated consideration of annual family income, by creating forms requiring record of only individual income, CCDC had helped the ineligible persons. Though it was stated that steps have been taken to rectify the defects, the Committee wanted to know the amount lost by the Company by sanctioning loans in this unauthorised manner.

33. The average recovery in CCDC had increased from ₹ 35 lakh to ₹ 1 crore 38 lakh. The revenue recovery proceedings were to be begun after issue of notice to the parties. To find if loanees of a scheme from one Company availed the same loan from any other Company, a card containing the details of the loans taken is given to the loanees. In addition to this the details of the loan are shown in their ration cards. CCDC has been doing this for the last one and a half years, BCDC has been following it right from its formation and SC/ST Corporation from 2006-07.

34. When enquired why CCDC had issued loans mainly to the applicants around its head office, the audit finding was admitted to be true. The major pockets of target group of CCDC being Kottayam, Idukki, Pathanamthitta and Thrissur, proximity and accessibility were the reasons pointed out for people around Kottayam availing more loans.

35. Lack of publicity of the schemes being a reason for low turnover of applicants for loans from remote areas, the Companies conducted beneficiary meets and loan disbursement programmes. The Committee suggested that brochures of loan schemes should be given to all Panchayats. The Companies organised camps and study classes for beneficiaries to give awareness of the schemes and on the spot loan disbursement was done. The number of loan applications as well as amount of loan disbursement was reported to have increased in 2008. The Committee opined that selection of beneficiaries of Agricultural Land Purchase loans, was done giving relaxation to norms on annual family income and age of sureties. The Committee was informed that with the introduction of Right to Information Act the processing of loan application had become more transparent.

36. CCDC gave publicity to loans through brochures and interviewed applicants before sanctioning loan. Regarding grant of loans to already employed persons it was informed that in some cases loans are sanctioned to eligible persons who had fully repaid their previous loans. The Committee remarked that the objective of the schemes was to help the unemployed to find self employment. This objective will not stand served if the same beneficiary gets support repeatedly. It was then explained that those who have once availed loan are sometimes again granted loan to improve their employment, taking into account their income and community.

37. The recovery percentage in SC/ST Corporation, CCDC and BCDC were 68, 60 and 91 respectively. The Companies normally calculate the fund needed for loan disbursement in advance. However during the period from 2005 to 2009, for want of Government guarantee, fund from National Agency could not be fully availed.

38. The Committee pointed out that due to the absence of a proper monitoring system before and after the distribution of loan there is a decreasing trend in the repayment of loan. The Companies are not giving awareness campaign about the need for repayment of loan. However, all the three Companies claimed that they are conducting seminars and other awareness campaigns. Due to the debt waiver schemes introduced by the Government, there is a sharp decline in the repayment of even newly availed loans, though the debt waiver scheme is applicable only to loans availed before 2006. The Committee suggested that if a proper monitoring system is introduced the functioning of the Companies could be

really improved. It was then informed that the loanees are given pre-disbursement counselling for prompt repayment of loan. In CCDC loans are disbursed in 2 to 3 instalments. For housing loans each instalment is released after verifying the completion of the previous phase of the work. However using the limited staff, effective monitoring was claimed to be difficult and therefore it was reported to be done with the help of the Revenue Department. In BCDC there was a system to monitor the projects and utilization of loans using contract staff. In SC/ST Development Corporation the second instalment of loans above ₹ 75,000 is released only after ensuring utilisation of previous instalment. But marriage loans are disbursed in a single instalment. The witness admitted that in CCDC monitoring is poor as there is scarcity of staff due to prevailing Vigilance cases.

39. The Committee observed that the default in repayment made by the 13 Co-operative Societies resulted in huge loss to the SC/ST Corporation. All the 13 Co-operative societies where informed to be in the liquidation stage. Out of the 13 societies only Priyadarsini Tea Estate settled their account and in all other cases RR action had been initiated.

40. It was then informed that the Company would examine the cases and report to the Committee. The Committee also urged the Company to take action to ensure that the motor transport societies have their vehicles in running condition, so as to carry out RR proceedings.

41. From the loan of ₹ 1.70 lakh sanctioned by SC/ST Corporation to the Ambedkar Committee, a charitable Society, only 3 instalments had been repaid and RR notices had been issued to them as ₹ 2,09,658 was outstanding. The society was functioning no more.

42. The Committee commented that the three members of the society being from the same family and the Secretary of the Society being a previous defaultee from the Company, the failure to reject the loan application was an inexcusable lapse on the part of the Company. Regarding the controversy over the signature of a trust member of the society, it was stated that such a member had not signed in the signed pro-note. She had sent a letter to the Company that she was not a member of the Society and that here signature in the memorandum was a forged one. AG stated that one Smt. Sudhi had signed in the trust Deed, the Company however did not have a copy of the trust deed. The Committee criticised the stand of the Company in not verifying the trust deed before granting the loan. The Committee viewed the lapse of the Company, in failing to verify the trust deed and getting the pronote signed by all members of the trust, to be unpardonable. The Committee directed that the trust deed and promissory note should be verified and details should be furnished to it. Though RR action had already been initiated the Committee found no sense in the action since the society was reported to have no assets.

43. The SC/ST Corporation was found to have its terms and conditions by accepting invalid documents and extending undue favour to the three loanees who had availed loan under foreign education scheme. Two among the cases were reported to be already closed. The third loanee had orally agreed to close his loan shortly.

44. The Committee strongly criticised the attitude of officials of SC/ST Corporation in extending undue favours to beneficiaries.

45. The Committee was informed that in one or two years the list of selected applicants had to be cancelled by the companies due to shortage of funds because of non-receipt of sufficient fund from National Agencies. The issue was however reported to be solved.

46. With regard to the mode of selection of applicants during the time of fund shortage, the Committee was informed that earlier applications for loans were invited at the beginning of the financial year by publishing in newspapers. In SC/ST Development Corporation now all loans except those under Agricultural Land Purchase Scheme are any time loans. Marriage loan repayable in five years, which bears an interest rate of 6% per annum is sanctioned based on the surety given and the scheme is financed by the Company's own fund. ALP is a scheme sanctioned by the National Agency, bearing 6% p.a. interest rate. Out of the loan amount of ₹ 1.5 lakh ₹ 50,000 is given as subsidy by the State Government, ₹ 85,000 is provided by the National Agency and ₹ 15,000 is the contribution of the Company. The loan repayable in 8 years is sanctioned for the purchase of minimum 50 cents of agricultural land.

47. The Committee understood that the basic objective of the Companies to empower the target group by conducting awareness campaign and imparting training for skill development along with the fund assistance was not fulfilled by the SC/ST Development Corporation and CCDC. The Committee enquired how they had utilised the amount allocated for this purpose.

48. In SC/ST Corporation steps were informed to have been taken to conduct the awareness campaign and a proposal had already been submitted for loan assistance and training in co-operation with NBCFDC. However in CCDC no seminars or camps were conducted for awareness during the period of audit examination due to scarcity of employees. The Committee was not convinced with this reason as awareness camps are often conducted through outside agencies. Though, through newspapers and other media of publicity propaganda was given on the loan schemes, no study classes were organised. Recently district level meetings of beneficiaries are being organised and details of the schemes were conveyed to them which could help to attract more people to avail the schemes.

CCDC organised such activities utilising 9 employees deputed from other departments. The Committee observed that serious lapse has occurred in the matter of awareness among public and stressed the point that from 2000 to 2007 the Company had not conducted any such campaigns. The Committee wanted to have the details of the expenditure incurred in conducting the awareness camps from 2000 to 2007.

49. The Committee viewed seriously the failure of all the Companies in keeping the loan ledgers up-to-date, the failure of the CCDC to prepare the Demand Collection and Balance statement on monthly basis and also the defective DCB statements prepared by the other two Companies. The Committee wanted to know why the Government had not taken action against the persons responsible for the lapse. It was agreed to speed up the action in the matter. CCDC claimed that now it collects details and prepares ledgers before sanction of loans in all schemes. Also efforts were being made to make DCB statements up-to-date. The Committee pointed out that the company's failure to take any concrete step to rectify the defects even after 2 years since the audit observation was conveyed. CCDC was said to have initiated intensive steps such as computerisation and development of software and expressed hope to complete its accounts before 31st March 2010. To the Committee's query on whether all the backlog of accounts would be updated by 2010, it was replied that they would try to finish it by then. Efforts to prepare DCB statements and entering complete details are being made and software had already been developed. SC/ST Development Corporation claimed that it had case-to-case details of loan accounts. A software already developed enabled retrieval of details of any loan account. However it was admitted that, as pointed out by AG, penal interest was not incorporated in EMI demand before. This shortfall was claimed to be solved by then and penal interest had then been included in DCB statements which thus depicted the factual position.

50. The Committee pointed out that CC Corporation has not taken any steps to recover dues and that the legal advisors of CCDC were also its loan defaulters. It was informed that the three legal advisors had taken loan from the Company. Two of then had already closed their loans and the third one was repaying it. The Committee wanted to know whether there was any provision to sanction loan to the legal advisors. It was replied that if they come under the stipulated income limit no restriction can be imposed upon them in availing loan. However in the case under discussion, the legal advisors didn't come under the income limit. The Committee viewed this seriously and commented that the Company granted loan to them violating the rules.

51. The Committee enquired as to why the staff of the Company were not taking any steps to recover the dues from the defaultees/sureties until they retire

from service and also whether there was any mechanism in the company to do the same. If timely recovery procedure had been initiated from sureties who were Government employees, they would not have obtained NLC and retired smoothly from service. It was then informed that after the audit examination CCDC had intensified its recovery procedures as a result of which it was able to make record recovery collection in the previous year. Around 560 accounts were reported to be still pending for recovery.

52. Valuation of land was found to be made in such a manner as to enable the loanees to secure higher loan amount. The Committee wanted to know if the CCDC had taken any action against those responsible for this overvaluation of land. It was informed that a file relating to the matter is now pending at the Government level with the recommendation for vigilance enquiry. Land with value up to ₹ 1 lakh was valued by Village Officer and land with value higher than that and up to ₹ 50 lakh by Tahasildar. The Company could sanction loan up to 80% of the valuation amount. Normally the average value of 5 registrations within the last months is taken as value by the authorities. There were cases in which the entire valuation amount instead of 80% was given as loan.

53. Regarding the return of about 400 notices sent by SC/ST Development Corporation in connection with OTS for want of addressee, it was informed that a vigilance enquiry in this connection was in progress. The Committee sought the details of follow-up action taken by the Company in the case of the returned notices. It was informed to the Committee that the Company was trying to find out the sureties. SC/ST Corporation was granting OTS facility to defaulters of loans from 2004-2007. Notices were returned in 398 cases and among them some loanees were demised and some loanees had changed residence to other panchayats. Field level inspection was initiated to find out defaulters. The Committee wanted to have the details and the present position of the cases after steps were taken by the Company to find out the defaulters. When the Committee directed that in case of sureties who are Government employees, the matter should be intimated to concerned departments then and there, it was complained that some drawing officers were not co-operating with the Company to recover the amount from the sureties.

54. The Committee wanted to know if there was any permanent set-up for impact assessment in the Companies. It was conveyed that BCDC used to be evaluated by national organisation with the help of some agencies. A team under the Planning Board was informed to be evaluating its activities. National Institute of Banking was also conducting a study on the impact of BCDC. The Company Board had decided to get its impact assessment done by the National Agency. The impact of CCDC and SC/ST Corporation was stated to be assessed by the Planning Board. The Committee suggested that rather than such a general study it would be better for each of the Companies to have its own effective system for impact study.

55. The Committee enquired whether the Companies had any monitoring system to ensure that the loans disbursed for a particular project are spent for the same. CCDC claimed that using the available staff, after disbursing every instalment of loan, the Company is verifying whether the amount has been spent for the purpose. It was further informed that the Company had taken action against the Officers who failed to verify utilisation of previous instalments before disbursing the next instalment. The Committee opined that positive impact could be made only by ensuring that loan amount is spent for the purpose for which they were granted and also by recovering the amount from the loanee. On behalf of BCDC it was informed that there are 8 accredited agencies engaged by national agencies for scrutinising loans and that fund would be allotted only after they verify and report. In SC/ST Corporation also, only after ensuring proper utilisation of an instalment, the next instalment of loans were disbursed.

56. The Committee noticed that SC/ST Corporation and CC Corporation were spending high rate per Rupee as administrative cost and enquired about the steps taken by the Companies to reduce it. The SC/ST Corporation had however, reduced the administrative cost remarkably from 36 paise to 16 paise per Rupee. The Company expected a further reduction in service cost by 2010.

57. CCDC had a target service cost of 3 paise per rupee as against the then cost of 4.5 paise per rupee. Though the total strength of staff in the company was 230 it was working with 120 staff, making use of temporary hands.

58. The ALP Scheme was implemented mainly by SC/ST Corporation and CCDC. As per the old scheme a maximum amount of ₹ 25,000 was given as loan, repayable in 12 years, which was later revised to ₹ 1,50,000 and made repayable in 8 years. This revision increased the monthly repayment which contributed to increased default rate and thus decreased loan repayment.

59. When enquired about the violation by the SC/ST Corporation of the stipulation that land should be registered in both husband's and wife's name, the Government put forth the explanation of the SC/ST Development Corporation that in most of those cases applicants were widows. When the committee repeated the question whether in all the 14 cases test checked by audit the beneficiaries were widows and strongly warned the witness to be careful to claim so and stressed its capability to examine the concerned documents to verify the same, on behalf of the company it was admitted that beneficiaries were not widows in all the cases. The Committee strongly condemned the attitude of the witness in misguiding the committee by giving wrong information. The Government was also blamed for favouring single registration, which indirectly aimed at enabling sale of land. The Committee demanded a detailed examination into the matter and a report on the situation that led to single registration in the 14 case to be submitted to it.

60. As per the latest Government Order effective from 1-9-2008, it was stipulated that document could be returned after 5 years of availing loan, once repayment of subsidy is made. The Committee commented that return of documents, after pre-closure of loan plus subsidy, should not have been entertained as unless the company kept the property papers till the end of the stipulated repayment period, it could not ensure that beneficiaries did not part with the property they acquired.

61. The Committee further criticised SC/ST Corporation for returning documents in 53 cases in which the loanees closed their accounts within 19 to 86 months as per the Board decision, without repayment of subsidy. The Committee also added that the very purpose of ALP loan to help people from targeted community to own land has been tampered by this action. The Committee recommended that a detailed report on return of documents without taking back subsidy, before expiry of the period of the loans need to be submitted to it.

62. The company informed to have initiated revenue recovery action in all defaulted cases. Through revenue recovery action, up to 31-9-2009, 41% amount had been collected. However, once loan waiver scheme has been announced, loanees are hardly repaying. The Committee pointed out that the loan waiver scheme was announced in 2009 while the audit objection is related to repayment before 2007. When a loanee defaults five to six consecutive instalments in SC/ST Corporation, a registered notice is served to him. Then field visit is made to convince him. If repayment is not made in spite of all these, revenue recovery requisition is given to District Collector who starts the procedure through Tahasildar. The Regional Manager of the company participates in the revenue recovery meetings convened by District Collectors every month and by Tahasildars at Taluk level. Village-wise list is given to District Collector as well as Tahasildars to speed up revenue recovery action. However recovery from beneficiaries was informed to be very poor.

63. The Committee wanted to know the total number of defaulted loanees in all schemes. It was answered that in SC/ST Corporation revenue recovery action had been initiated in 4448 cases. However the number of cases in which revenue recovery action had been completed could not be submitted. It was then assured to the Committee that a detailed report including the total number of defaulted cases, the cases in which revenue recovery action has been initiated, completed and also the number of cases in which action is being continued and the amount so far collected will be submitted.

64. The Committee found that there was clear lapse on the part of officials in carrying out and following up revenue recovery action. The Committee recommended that Government should act vigorously on such officials.

65. With regard to CC Corporation, it was admitted that many records were missing and that the company had lost its claim in almost 900 cases as per Law of Limitation, as timely action could not be taken for recovery. When questioned about the reason to approve loan to a 57 year old lady, when the maximum age limit for the loan was 55 years, it was admitted as a lapse. Though initial application showed more than 55 years as age, later a doctor's certificate showing lesser age was taken as base. The malafide intention behind this was viewed seriously by the Committee. With regard to the overvaluation of land in 13 cases, by the administrative officer of CCDC and consequent excess disbursement of ALP loan, the committee asked about the action that has been taken based on the recommendation from Vigilance Department. The witness informed that the Vigilance enquired against the responsible officer from Finance Department and disciplinary action has been reported to be initiated against him. The Committee wanted to be informed of the present position of the case. It was then admitted that up to 2005, the CCDC had sanctioned a loan amount equal to the cost of land. This was accepted to be a serious mistake on the part of the company. The Committee wanted to know the persons responsible for this mistake. All employees who dealt with the files were found to be involved in the case and no action was found to be taken against the responsible employees. The Committee opined that if no action has been taken against those responsible, even after realising the mistake/lapse, it shows that the company has safeguarded them. The Committee recommended that stringent disciplinary action should be taken against the concerned officials and the action taken to be reported to the Committee.

66. The Committee expressed surprise that the SC/ST Corporation had disbursed loan amounts directly to the beneficiaries instead of giving to the respective educational institutions. The Committee wanted explanation for the Kollam Office in disbursing loan amount in lump sum instead of giving need-based instalments as directed by the head office. It was informed that now the company disbursed loan amounts to the joint account of parents and students on production of utilisation certificates.

67. The Committee wanted to know the reason for the delay in fixing repayment schedules for educational loans. In many cases the schedule was not fixed and communicated to the beneficiaries even 4 years after course completion. The shortfall was reported to be sorted out and it was informed that repayment schedules are now being served to the beneficiaries. The lapses on the part of the company were admitted and it was assured that the company would take care to see that such lapses are not repeated in future.

68. It is understood that the SC/ST Corporation had some teething problems in the utilisation of funds in the initial years. The reason for this was pointed out

to be lack of clarity as to how the schemes were to be implemented. On account of this there was short utilisation of funds and also under performance of the schemes. However corrective measures had already been taken for the shortfalls.

69. In the initial days of implementation of MSY Scheme, SC/ST Corporation had faced some problems and thus under utilised funds and refunded the balance unutilised amount to NSFDC.

70. Loans were found to be sanctioned at a higher interest rate under micro finance scheme instead of giving loans under Mahila Samridhi Yojana. This was informed to be at a time when there arose a situation in which funds were not obtained from NSFDC.

71. It was admitted that in a certain period the Government had failed to release subsidy amounts promptly and that hence the matching grant could not be obtained from Central Government, the scheme being a subsidy linked one. It was then claimed that now subsidy is being released without fail. With regard to adjustment of arrear subsidy obtained from Government after full repayment of loan, it was explained that as and when eligible subsidy was obtained from Government the same was credited to the respective loan accounts and the excess amount if any, was refunded to the concerned beneficiaries.

72. The Committee remarked that the SC/ST Corporation had disbursed subsidy amount without ensuring proper utilisation of loan amount for the purpose for which they were intended. The purpose of the loan was pointed out to be for small self employment ventures up to ₹ 25,000 for the beneficiaries belonging to BPL group. The subsidy had to be given to beneficiaries to serve as an assistance when scheme is implemented and this purpose had not been served here.

73. When asked if any interest was charged from the beneficiaries on the subsidy part when the amount of ₹ 25,000 was repaid, it was replied that this could be informed only after verification of records. The Committee wanted to get a clear answer in this regard.

74. In CC Corporation two cases were registered and under trial in the Vigilance Court. Employees under suspension had been reinstated and one among them had retired. The retired employee had not been given full retirement benefits. The Board of the company had given prosecution sanction for those involved in the two registered cases. For two other cases prosecution sanction had been sought from the company, which was yet to be would be considered by the Board. The Committee wanted explanation from the company for reinstating employees under vigilance trial.

75. The Committee found that the vigilance case on disbursement of loan assistance of ₹ 4.68 lakh to 17 nursing students to undergo paramedical course conducted by a private hospital was under investigation. With regard to implementation of the scheme without Government approval, it was informed that as the Board of the Company had a Finance Director, it had full delegation of power to implement the scheme and hence Government approval was not necessary. The Committee pointed out that the company had disbursed the loan of ₹ 4.68 lakh to the institution which did not conduct the paramedical course, Moreover the company had issued course certificate, which it was not authorised to do. The Committee strongly criticised that there occurred serious lapse on the part of the company. It was admitted that the company was not authorised for issuing the certificate. The committee directed that the accused official on deputation from Co-operation Department responsible for the lapse should not be issued NOC.

76. The inordinate delay in settlement of vigilance cases dated back 1997 was explained to be due to prosecution sanction formalities together with the investigation process. The Committee opined that even after officers retire and pass away, cases wouldn't get settled. The Committee suggested that Government/ Accountant General should fix a time limit for settlement of such cases.

77. Non-utilisation of additional interest margin reimbursed by NMDFC, which could be utilised for infrastructure expenses, resulted in lapse of an amount of ₹ 6.41 lakh for BCDC. In 2004-05, the company had a proposal to purchase new vehicle to replace an old one. The delay that occurred in the disposal of old vehicle was pointed out as the reason for lapse of the amount of ₹ 6.41 lakh. The interest margin that would be reimbursed has to be communicated and a proposal has to be sent to NMDFC for approval, which involved delay. Quite often the company would not be in need of the item approved by the national agency. It was admitted that procedural delay on the part of BCDC to sell old vehicle had led to the lapse in 2004-05. The Committee recommended that the company should in future avoid such lapse, which was the result of lack of foresight and vision.

78. BCDC started the housing finance scheme during the years 1998-99 availing loan from HUDCO at an exorbitant interest rate of 15%. The purpose of the scheme was to give loan to poor people of targeted community for construction of own house. The company disbursed low income group (LIG) loan and Middle Income Group (MIG) loan to beneficiaries whose annual income was up to ₹ 28,000 and ₹ 58,000 respectively. The monthly repayment liability being disproportionately higher than the income of beneficiaries, there occurred high rate of defaults. As the interest rate charged by HUDCO was quite high, the Company

availed loan from Union Bank at 10.5% interest rate and closed the loan from HUDCO. Through adalats the company settled almost 430 loan accounts and 452 loan accounts are still pending. The company had closed their loans from HUDCO as well as Union Bank and loans to beneficiaries alone were pending. The Company had suffered notional loss through waivers in adalats. The Committee opined that the high interest rate as well as low repayment capacity of beneficiaries should have been taken into account before evolving the scheme, especially when the purpose of the loan was not a productive one.

79. BCDC had made minor lapses in the initial years due to ignorance about implementation of micro credit scheme. Though the company started implementation of the micro credit scheme through Kudumbasree units, due to non-willingness to take up responsibility and sign agreements, it was later entrusted to NGOs. The Board has however decided to implement the scheme hereafter through Kudumbasree.

80. When pointed out that the company selected NGOs in a hasty manner without assessing their financial status, it was informed that national corporations had directly selected NGOs and disbursed loans. The Committee was of opinion that the national corporation might do the selection based on a general guideline or direction but BCDC ought to have assessed the credibility of those NGOs. Though it was informed that as per the guideline for rating NGOs applications are called for and then scrutinised by the Board with their audit report and assets for three years and loan is sanctioned up to 50% of their net worth, the Committee could not accept the justification and blamed the company for hastily selecting them without assessing their credit worthiness and financial soundness. The company had plans to evaluate the working of the NGOs through a field study by appointing an agency. The committee also expressed concern that many NGOs were providing loans to the end users at higher interest rate. To avoid chances of NGOs charging higher rate of interest and thus ensuring that the objectives of micro finance schemes are fulfilled, the Committee urged the company to give publicity to interest rate charged on target group. The Committee also wanted to know about the fate of the sub committee constituted in 2006 for evaluating the utilisation and social impact assessment and functioning of self help groups. The committee further wanted to be informed of the reason for not including the document to substantiate annual family income of beneficiaries in the utilisation statements furnished by NGOs.

81. The Committee opined that Kudumbasree had a strong monitoring facility and suggested that hence micro credit scheme could be implemented through Kudumbasree under the leadership of Panchayat and BCDC. It was agreed to do so.

82. Regarding the annual accounts of the three companies, it was informed that accounts of SC/ST Development Corporation would be up-to-date by March 2010. Annual accounts of CCDC and BCDC had been completed till 1996-97 and 2004-05 respectively. The accounts of BCDC was being done online and hence could be made up-to-date very fast. Statutory Audit of 2007-08 was being done in SC/ST Development Corporation and accounts of CCDC for 1997-98 and 1998-99 had been given for statutory audit, which was expected to be completed within a week, three months after which provisional accounts would be made up-to-date. The Committee directed that the company should take measures to expedite updation of its accounts.

83. Regarding internal audit, CCDC claimed the appointment of a Chartered Accountant and BCDC claimed effective functioning of its own Internal Audit Board. Further BCDC is training its employees to do audit which is being evaluated by the audit committee. The committee also wanted reorganization and strengthening of internal control system prevalent in SC/ST Corporation.

Conclusions/Recommendations

84. **The Committee views seriously the attitude of the Government as well as the Companies in not implementing the recommendations made by COPU in its 20th report in 2003.**

85. **SC/ST Corporation and CC Corporation should get registered with RBI as non-banking financial Companies so as to comply with the statutory requirements.**

86. **Due to the absence of reliable data to assess the size of the target group of all the three companies, identification of deserving beneficiaries becomes difficult. The Committee therefore stresses the need for a special community-wise survey on backward classes which should enable all the three companies to identify accurately the target population and to enable the formulation of strategic plans, fixation of annual physical targets and evaluation of achievements so that the assistance provided by the companies would reach the really deserving people**.

87. **The Committee suggests to identify the districts from which SC & ST categories hail in large number and to ascertain whether they are getting deserving loans from these companies.**

88. **It is found that due to unrealistic financial projections made in the Annual Action Plans (AAP) and consequent underutilisation of funds by the companies, disbursement from National Agencies gets restricted. The companies are therefore directed to make realistic AAP for submission to National Agencies for fund assistance.**

89. **The SC/ST Corporation is directed to ensure an equitable loan disbursement to the Community throughout the State rather than concentrating around its regional Offices.**

90. **The Committee also wants to be furnished with the district wise data on marriage loan disbursements by SC/ST Corporation in the previous year. In SC/ST Corporation due to its failure in ensuring prompt repayments from loanees and the resultant inability to make optimum use of available capital base have led to retardation in business growth. Therefore the SC/ST Corporation and the CCDC should take remedial measures to remove the retardation in their business growth.**

91. **The Committee notices failure/delay on the part of the Companies as well as Government in providing sufficient Government guarantee, which in turn caused disruption in flow of fund from National Agencies. The Companies should in future make punctual efforts to secure Government guarantee and the Government should also ensure provision of necessary guarantee without failure and delay.**

92. **The system of processing loan application after receipt of funds from National Agencies leads to non-qualitative scrutiny and hasty disbursement of loans. The companies should therefore follow a system of selection of beneficiaries sufficiently in advance so that optimisation of loan assistance will be possible.**

93. **SC/ST Corporation has been found to have disbursed loans to hardly 0.01% of the tribal population of the State. Thus the Company could not fulfill its social obligation to assist the tribal people to the desired extent. The company should therefore implement suitable micro credit schemes among the target group by promoting Self Help Groups/NGOs, so that the inability to reach out to tribal population can be overcome.**

94. **SC/ST Corporation and CCDC should improve their recovery performance of loans and avoid procedural delay in processing loan application to fully channalise the funds obtained, so that refunding of unutilised fund shall be avoided.**

95. **Drawal of fund by SC/ST Corporation from NSKFDC without ascertaining the scope and potential of distribution had landed up in payment of non-utilisation charges. The Committee therefore recommends that stringent action should be taken against the officers responsible for the drawal without adequate planning for utilisation.**

96. **The Committee directs that BCDC should co-ordinate with local self government bodies, popularise and promote, on priority, special schemes like 'New Swarnima Scheme' (NSS) which bear concessional interest rate and aim at empowerment of weaker sections among target group.**

97. **The application form prescribed by BCDC for educational loan prioritised by National Agency for women, physically impaired and dependants of war widows among target group should be incorporated with the provision to indicate such special status of applicant.**

98. **The CC Corporation has committed serious lapse by facilitating production of improper Income Certificates by requiring, in the application form, the village officers to certify only individual annual income of 'applicant', while NBCFDC stipulated consideration of the annual income of 'family'. The Committee recommends that loss suffered by the company on account of giving such a relaxed approach to 'annual income' should be reported to the Committee without failure.**

99. **The Committee wants to be informed of whether SC/ST Corporation now follows the practise of recording loan assistance in ration cards of beneficiaries to guard from drawal of assistance by more than one member of a beneficiary family or from more than one lending agency.**

100. **The CC Corporation should distribute their brochures containing details of their loan schemes to Panchayat Offices so that target group across the State can be turned up more easily and thus loan assistance can be distributed in an equitable manner.**

101. **The SC/ST Corporation should evolve a foolproof system to ensure that loans are not disbursed to existing entrepreneurs or earlier beneficiaries.**

102. **Absence of a system for monitoring the utilisation of loans being a major drawback in operation, all the three companies should introduce such a system wherever absent and strengthen such a system wherever present.**

103. **The Committee wants to be informed of the result of the RR action initiated by SC/ST Corporation against the 12 Co-operative societies which availed loans, defaulted repayments and accumulated arrears and got liquidated after a short span of time.**

104. **The Committee also directs that the SC/ST Corporation should ensure that the motor transport societies, among the twelve, have their vehicles in running conditions so as to enable recovery procedure.**

105. **The failure of SC/ST Corporation to reject the loan application from Ambedkar Committee, on finding that the President, Secretary and another member of the society belong to the same family and the Secretary having defaulted repayment of an earlier assistance, is viewed as an inexcusable lapse. Further the fact that the Company had neither verified the trust deed before granting the loan nor got the pro-note signed by all members of the trust appears to be done to extend undue favour to the society.**

106. **The trust deed as well as pro-note should therefore be verified and details should be furnished to the Committee. Those responsible for such as unpardonable lapse, should be held liable for the loss on account of grant of the loan.**

107. **All three loan disbursements by SC/ST Corporation under foreign education scheme were found to be irregular, relaxing terms and conditions, accepting invalid documents and extending undue favours. Payment of loan amount directly to Dr. Avinash, a beneficiary instead of the educational institution, even waiving the condition as to beneficiary contribution and later extending undeserving relaxation in repayment was unpardonable. Sanction of loan to Dr. Sureshkumar, accepting an outdated income certificate as well as grant of loans to Sri Sajan, relaxing conditions, was against the interest of the Company. The Company should fix responsibility for all these actions and also ensure that such irregularities will not be repeated.**

108. **The basic objective of the Companies to empower the target groups by conducting awareness campaign and imparting training for skill development, along with fund assistance, could not be justified. Thus productive use of funds disbursed became impossible and recovery performance became very low. The Committee urges the Companies to conduct such awareness activities vigorously and directs CC Corporation to furnish a copy of statement of expenditure on awareness camps conducted by the company from 2000-2007.**

109. **The Companies should maintain updated loan ledger and prepare monthly DCB statements reflecting factual position of collection efficiency**.

110. **The Companies should also strengthen their recovery measures and ensure timely communication of repayment schedule and timely initiation of recovery action against sureties.**

111. **Sanction of loan to 3 legal advisors of CC Corporation violating the rules relating to income limit is viewed seriously by the Committee. The Committee directs that such lapses should not get repeated.**

112. **CCDC should refrain from overvaluation of properties at the time of loan disbursement and solve the issue of lack of proper records to monitor progress of recovery action.**

113. **All the 3 companies should also find solution to the inadequacies existing in their collection machinery.**

114. **SC/ST Corporation should furnish details about the latest position of the 398 cases in which OTS notices were returned undelivered, after the steps taken by it to find out the defaulters.**

115. **The Companies should evolve their own systems for post implementation impact assessment.**

116. **SC/ST Corporation and CCDC should make efforts to reduce their administrative cost to the minimum possible.**

117. **The Committee finds fault with the department for favouring registration of land purchased in ALP Scheme in single name. The Committee wants a detailed examination of the matter and a report depicting the reason for single registration in the 14 cases highlighted.**

118. **Shooting up of land price makes the amount of ALP loan insufficient to purchase land. Hence it is recommended that the amount of ALP loan should be revised, considering the prevailing land price.**

119. **The Committee needs a detailed report from SC/ST Corporation on return of documents before expiry of the period of ALP loans, without taking back the subsidy they enjoyed. The Company should also submit a report, as assured, containing the total number of defaulted cases, cases in which RR action has been initiated, cases in which the action has been completed, cases in which RR action is being continued and also the amount collected so far.**

120. **Government should take stringent action against officials of SC/ST Corporation who committed lapse in carrying out and following up revenue recovery action.**

121. **The Committee wants to be informed of the action taken, against the officer from Finance Department based on the recommendation of Vigilance Department enquiry in 2004-05 on overvaluation of property as well as excess disbursement of ALP Loans above 80% of value by the then Administrative Officer of CC Corporation.**

122. **It is learnt that the CC Corporation insisted a 57 years old lady applicant to change the originally given age certificate and accepted a fresh certificate, from a doctor, not bearing the date of issue and sanctioned ineligible loan. The Committee wants disciplinary action to be initiated against the officials responsible for this lapse.**

123. **The Committee calls for a report on the action taken against the officials of CC Corporation who released 100% of cost of land as loan assistance in respect of 329 loan applications, without insisting for 20% of cost of land as contribution by beneficiaries.**

124. **SC/ST Corporation should discontinue the practice of disbursing educational loans in lump sum directly to beneficiaries, instead of to the educational institution, with out insisting utilisation certificates. The Company should also prepare repayment schedules and serve them to beneficiaries in time.**

125. **With regard to 'non-release of subsidy' the Committee stresses that Government should not fail to release subsidy in time as delayed grant of subsidy would adversely affect schemes performance. The Committee also wants to be informed of whether interest was charged by SC/ST Corporation from beneficiaries on the subsidy part when delayed disbursement of subsidy was made.**

126. **The Committee seeks explanation for CC Corporation reinstating employees under vigilance trial.**

127. **Concerning the loan assistance given by CC Corporation for paramedical course in an institution where no such courses were conducted the Committee criticises the action of the company for unauthorisedly issuing the course certificate. The case is a clear evidence of misappropriation of fund. The Committee also strictly directs that the official on deputation from Co-operation Department should not be issued NOC. Further, it is suggested that Government/Accountant General should fix a time limit for settlement of cases involving vigilance enquiry so as to avoid the accused ones retiring/ passing away by the time action against them gets due.**

128. **The Committee understands that due to lack of foresight there occured delay and BCDC could not make use of ₹ 6.41 lakh out of the eligible rebate of 25% of interest paid by State Channelising Agencies in 2004-05. The Committee therefore recommends that such lapse should not recur in future.**

129. **The Housing Finance Scheme implemented by BCDC was found to be evolved without giving due consideration for high interest rate of loan and low repayment capacity of beneficiaries. The Company should in future give due weightage to such factors when evolving schemes, especially when their purpose is unproductive.**

130. **In micro credit finance Scheme, to avoid NGOs from charging higher interest rate, the CC Corporation should give publicity regarding interest rate charging on target group.**

131. **The Committee wants to be informed of the present stage of the sub-committee constituted in 2006 for evaluating utilisation and social impact assessment and functioning of self-help groups.**

132. **The reason for not including the document to substantiate annual family income of beneficiaries in the utilisation statements furnished by NGOs should be furnished to the Committee.**

133. **The Committee recommends that micro credit scheme should be implemented through institutions like Kudumbasree units etc., under the leadership of Panchayat as well as BCDC.**

134. **CCDC should take earnest efforts to expedite updation and finalisation of its accounts and make use of the assistance offered by Accountant General in doing this.**

135. **SC/ST Corporation should reorganise and strengthen its internal control system.**

136. **The Committee recommends that a detailed enquiry should be conducted by the Government on the functioning of the SC/ST Corporation, CCDC and BCDC and to report the details to the Committee at the earliest.**

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th December 2012.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	*Report Para No.*	*Department concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	84	SC/ST Development	The Committee views seriously the attitude of the Government as well as the Companies in not implementing the recommendations made by COPU in its 20th report in 2003.
2	85	„	SC/ST Corporation & CC Corporation should get registered with RBI as non-banking financial Companies so as to comply with the statutory requirements.
3	86	„	Due to the absence of reliable data to assess the size of the target group of all the three companies, identification of deserving beneficiaries becomes difficult. The Committee therefore stresses the need for a special community wise survey on backward classes which should enable all the three companies to identify accurately the target population and to enable the formulation of strategic plans, fixation of annual physical targets and evaluation of achievements so that the assistance provided by the companies would reach the really deserving people.
4	87	„	The Committee suggests to identify the districts from which SC and ST categories hail in large number and to ascertain whether they are getting deserving loans from these companies.
5	88	„	It is found that due to unrealistic financial projections made in the Annual Action Plans (AAP) and consequent underutilisation of funds by the companies, disbursement from

(1)	(2)	(3)	(4)
			National Agencies gets restricted. The companies are therefore directed to make realistic AAP for submission to National Agencies for fund assistance.
6	89	SC/ST Development	The SC/ST Corporation is directed to ensure an equitable loan disbursement to the Community throughout the State rather than concentrating around its regional Offices.
7	90	,,	The Committee also wants to be furnished with the district wise data on marriage loan disbursements by SC/ST Corporation in the previous year. In SC/ST Corporation due to its failure in ensuring prompt repayments from loanees and the resultant inability to make optimum use of available capital base have led to retardation in business growth. Therefore the SC/ST Corporation and the CCDC should take remedial measures to remove the retardation in their business growth.
8	91	,,	The Committee notices failure/delay on the part of the Companies as well as Government in providing sufficient Government guarantee, which in turn caused disruption in flow of fund from National Agencies. The Companies should in future make punctual efforts to secure government guarantee and the Government should also ensure provision of necessary guarantee without failure and delay.
9	92	,,	The system of processing loan application after receipt of funds from National Agencies leads to non-qualitative scrutiny and hasty disbursement of loans. The companies should therefore follow a system of selection of beneficiaries sufficiently in advance so that optimisation of loan assistance will be possible.

85/2013.

(1)	(2)	(3)	(4)
10	93	SC/ST Development	SC/ST Corporation has been found to have disbursed loans to hardly 0.01% of the tribal population of the State. Thus the Company could not fulfill its social obligation to assist the tribal people to the desired extent. The company should therefore implement suitable micro credit schemes among the target group by promoting Self Help Groups/NGOs, so that the inability to reach out to tribal population can be overcome.
11	94	,,	SC/ST Corporation and CCDC should improve their recovery performance of loans and avoid procedural delay in processing loan application to fully channalise the funds obtained, so that refunding of unutilised fund shall be avoided.
12	95	,,	Drawal of fund by SC/ST Corporation from NSKFDC without ascertaining the scope and potential of distribution had landed up in payment of non-utilisation charges. The Committee therefore recommends that stringent action should be taken against the officers responsible for the drawal without adequate planning for utilisation.
13	96	,,	The Committee directs that BCDC should co-ordinate with local self government bodies, popularise and promote, on priority, special schemes like 'New Swarnima Scheme' (NSS) which bear concessional interest rate and aim at empowerment of weaker sections among target group.
14	97	,,	The application form prescribed by BCDC for educational loan prioritised by National Agency for women, physically impaired and dependants of war widows among target group should be incorporated with the provision to indicate such special status of applicant.

(1)	(2)	(3)	(4)
15	98	SC/ST Development	The CC Corporation has committed serious lapse by facilitating production of improper Income Certificates by requiring, in the application form, the village officers to certify only individual annual income of 'applicant', while NBCFDC stipulated consideration of the annual income of 'family'. The Committee recommends that loss suffered by the company on account of giving such a relaxed approach to 'annual income' should be reported to the Committee without failure.
16	99	,,	The Committee wants to be informed of whether SC/ST Corporation now follows the practise of recording loan assistance in ration cards of beneficiaries to guard from drawal of assistance by more than one member of a beneficiary family or from more than one lending agency.
17	100	,,	The CC Corporation should distribute their brochures containing details of their loan schemes to Panchayat Offices so that target group across the State can be turned up more easily and thus loan assistance can be distributed in an equitable manner.
18	101	,,	The SC/ST Corporation should evolve a foolproof system to ensure that loans are not disbursed to existing entrepreneurs or earlier beneficiaries.
19	102	,,	Absence of a system for monitoring the utilisation of loans being a major drawback in operation, all the three companies should introduce such a system wherever absent and strengthen such a system wherever present.
20	103	,,	The Committee wants to be informed of the result of the RR action initiated by SC/ST Corporation against the 12 Co-operative

(1)	(2)	(3)	(4)
			societies which availed loans, defaulted repayments and accumulated arrears and got liquidated after a short span of time.
21	104	SC/ST Development	The Committee also directs that the SC/ST Corporation should ensure that the motor transport societies, among the twelve, have their vehicles in running conditions so as to enable recovery procedure.
22	105	,,	The failure of SC/ST Corporation to reject the loan application from Ambedkar Committee, on finding that the President, Secretary and another member of the society belong to the same family and the Secretary having defaulted repayment of an earlier assistance, is viewed as an inexcusable lapse. Further the fact that the Company had neither verified the trust deed before granting the loan nor got the pro-note signed by all members of the trust appears to be done to extend undue favour to the society.
23	106	,,	The trust deed as well as pro-note should therefore be verified and details should be furnished to the Committee. Those responsible for such as unpardonable lapse, should be held liable for the loss on account of grant of the loan.
24	107	,,	All three loan disbursements by SC/ST Corporation under foreign education scheme were found to be irregular, relaxing terms and conditions, accepting invalid documents and extending undue favours. Payment of loan amount directly to Dr. Avinash, a beneficiary instead of the educational institution, even waiving the condition as to beneficiary contribution and later extending undeserving relaxation in repayment was unpardonable. Sanction of loan to

(1)	(2)	(3)	(4)
			Dr. Sureshkumar, accepting an outdated income certificate as well as grant of loans to Sri Sajan, relaxing conditions, was against the interest of the Company. The Company should fix responsibility for all these actions and also ensure that such irregularities will not be repeated.
25	108	SC/ST Development	The basic objective of the Companies to empower the target groups by conducting awareness campaign and imparting training for skill development, along with fund assistance, could not be justified. Thus productive use of funds disbursed became impossible and recovery performance became very low. The Committee urges the Companies to conduct such awareness activities vigorously and directs CC Corporation to furnish a copy of statement of expenditure on awareness camps conducted by the company from 2000-2007
26	109	,,	The Companies should maintain updated loan ledger and prepare monthly DCB statements reflecting factual position of collection efficiency.
27	110	,,	The Companies should also strengthen their recovery measures and ensure timely communication of repayment schedule and timely initiation of recovery action against sureties.
28	111	,,	Sanction of loan to 3 legal advisors of CC Corporation violating the rules relating to income limit is viewed seriously by the Committee. The Committee directs that such lapses should not get repeated.
29	112	,,	CCDC should refrain from overvaluation of properties at the time of loan disbursement

(1)	(2)	(3)	(4)
			and solve the issue of lack of proper records to monitor progress of recovery action
30	113	SC/ST Development	All the 3 companies should also find solution to the inadequacies existing in their collection machinery.
31	114	,,	SC/ST Corporation should furnish details about the latest position of the 398 cases in which OTS notices were returned undelivered, after the steps taken by it to find out the defaulters.
32	115	,,	The Companies should evolve their own systems for post implementation impact assessment.
33	116	,,	SC/ST Corporation and CCDC should make efforts to reduce their administrative cost to the minimum possible.
34	117	,,	The Committee finds fault with the department for favouring registration of land purchased in ALP Scheme in single name. The Committee wants a detailed examination of the matter and a report depicting the reason for single registration in the 14 cases highlighted.
35	118	,,	Shooting up of land price makes the amount of ALP loan insufficient to purchase land. Hence it is recommended that the amount of ALP loan should be revised, considering the prevailing land price.
36	119	,,	The Committee needs a detailed report from SC/ST Corporation on return of documents before expiry of the period of ALP loans, without taking back the subsidy they enjoyed. The Company should also submit a report, as assured, containing the total number of defaulted cases, cases in which RR action has been initiated, cases in which the action has

(1)	(2)	(3)	(4)
			been completed, cases in which RR action is being continued and also the amount collected so far.
37	120	SC/ST Development	Government should take stringent action against officials of SC/ST Corporation who committed lapse in carrying out and following up revenue recovery action.
38	121	,,	The Committee wants to be informed of the action taken, against the officer from Finance Department based on the recommendation of Vigilance Department enquiry in 2004-05 on overvaluation of property as well as excess disbursement of ALP Loans above 80% of value by the then Administrative Officer of CC Corporation.
39	122	,,	It is learnt that the CC Corporation insisted a 57 years old lady applicant to change the originally given age certificate and accepted a fresh certificate, from a doctor, not bearing the date of issue and sanctioned ineligible loan. The Committee wants disciplinary action to be initiated against the officials responsible for this lapse.
40	123	,,	The Committee calls for a report on the action taken against the officials of CC Corporation who released 100% of cost of land as loan assistance in respect of 329 loan applications, without insisting for 20% of cost of land as contribution by beneficiaries.
41	124	,,	SC/ST Corporation should discontinue the practice of disbursing educational loans in lump sum directly to beneficiaries, instead of to the educational institution, with out insisting utilisation certificates. The Company should also prepare repayment schedules and serve them to beneficiaries in time.

(1)	(2)	(3)	(4)
42	125	SC/ST Development	With regard to 'non-release of subsidy' the Committee stresses that Government should not fail to release subsidy in time as delayed grant of subsidy would adversely affect schemes performance. The Committee also wants to be informed of whether interest was charged by SC/ST Corporation from beneficiaries on the subsidy part when delayed disbursement of subsidy was made.
43	126	,,	The Committee seeks explanation for CC Corporation reinstating employees under vigilance trial.
44	127	,,	Concerning the loan assistance given by CC Corporation for paramedical course in an institution where no such courses were conducted the Committee criticises the action of the company for unauthorisedly issuing the course certificate. The case is a clear evidence of misappropriation of fund. The Committee also strictly directs that the official on deputation from Co-operation Department should not be issued NOC. Further, it is suggested that Government/ Accountant General should fix a time limit for settlement of cases involving vigilance enquiry so as to avoid the accused ones retiring/passing away by the time action against them gets due.
45	128	,,	The Committee understands that due to lack of foresight there occured delay and BCDC could not make use of ₹ 6.41 lakh out of the eligible rebate of 25% of interest paid by State Channelising Agencies in 2004-05. The Committee therefore recommends that such lapse should not recur in future.
46	129	,,	The Housing Finance Scheme implemented by BCDC was found to be evolved without giving due consideration for high interest rate

(1)	(2)	(3)	(4)
			of loan and low repayment capacity of beneficiaries. The Company should in future give due weightage to such factors when evolving schemes, especially when their purpose is unproductive.
47	130	SC/ST Development	In Micro Credit Finance Scheme, to avoid NGOs from charging higher interest rate, the CC Corporation should give publicity regarding interest rate charging on target group.
48	131	,,	The Committee wants to be informed of the present stage of the sub-committee constituted in 2006 for evaluating utilisation and social impact assessment and functioning of self-help groups.
49	132	,,	The reason for not including the document to substantiate annual family income of beneficiaries in the utilisation statements furnished by NGOs should be furnished to the Committee.
50	133	,,	The Committee recommends that micro credit scheme should be implemented through institutions like Kudumbasree units etc. under the leadership of Panchayat as well as BCDC
51	134	,,	CCDC should take earnest efforts to expedite updation and finalisation of its accounts and make use of the assistance offered by Accountant General in doing this.
52	135	,,	SC/ST Corporation should reorganise and strengthen its internal control system.
53	136	,,	The Committee recommends that a detailed enquiry should be conducted by the Government on the functioning of the SC/ST Corporation, CCDC and BCDC and to report the details to the Committee at the earliest.

85/2013.