सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1989
NO. 15 OF 1990

UNION GOVERNMENT (CIVIL)

Central Subsidy Schemes for Industrial Development in Backward Areas

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PREFATORY REMARKS

This Report of the Comptroller and Auditor General of India containing a review on the "Central Subsidy Schemes for Industrial Development in Backward Areas" has been prepared for submission to the President under Article 151 of the Constitution of India.

The points mentioned in the review are those which came to notice in the course of test audit.

OVERVIEW

This Audit Report contains a review on the Central Subsidy Schemes for Industrial Development in Backward Areas'. Three schemes 'Central Assistance for Development of Infrastructural Facilities in 'no-industry' districts', 'Transport Subsidy' and 'Central Investment Subsidy' had been operated by the Ministry of Industry with the objective of correcting regional disparities through industrialisation of backward areas.

Central subsidy towards meeting part of the cost of development of infrastructural facilities in selected growth centres in 'no-industry' districts, was payable under the scheme introduced in 1983.

The Transport Subsidy Scheme in operation from 1971 envisaged payment of subsidy on transportation of raw materials and finished products between designated railheads and location of the industrial units in selected hilly or inaccessible areas.

Central Investment Subsidy Scheme in operation from 1971 till September 1988, provided for payment of outright subsidy at prescribed rates on the fixed capital investment in units set up in identified backward districts/ areas.

Progress of development of growth centres was tardy under the scheme of Central assistance for development of infrastructural facilities in 'no-industry'districts. Though the scheme envisaged development of one or two growth centres in each of the 93 identified 'no-industry' districts, only 51 growth centres in 44 districts had been approved till March 1989. Fifty three per cent of the identified 'no-industry' districts had remained uncovered, though the scheme had been in operation for six years. Central assistance was released only to 35 out of 51 approved growth centres. None of the 13 growth centres for which first instalment of assistance was released by the Ministy during 1985-86, was completed till March 1989. Despite liberalisation of the scheme in 1986 in respect of North-Eastern States, the scheme made little progress in that region as Central assistance was released for only one growth centre.

Inadmissible and irregular payments of transport subsidy aggregating Rs.1.64 crores were noticed during test-check in audit. Irregularities included payment for transportation of material not covered under the scheme, excess payment due to reckoning rates higher than admissible, payments made to ineligible units and payments made without verification of documents. The industrial units in the Union Territories of Andaman and Nicobar Islands were not paid transport subsidy during 1982-89, due to delayed fixation of freight rates in June 1987.

Central Investment Subsidy accounted for about 93 per cent of total expenditure

of Rs.816.75 crores provided during 1980-89. The scheme was extended from year to year from 1975-76 till March 1987 and thereafter in shorter spells till September 1988, imparting an element of uncertainty to entrepreneurs. The Inter-ministerial Committee, set up for formulating revised incentive scheme, recommended in December 1986, continuance of the scheme with corrective measures during the Eighth Plan period. The scheme was not continued beyond September 1988. The backward districts were categorised into 'A', 'B' and 'C' in 1983 for entitlement to graded subsidy. Even after this modification of the scheme, the share of States in the Eastern and North-Eastern region was disproportionately low.

Adequate industrial dispersal could not be achieved as most of the districts benefited were in close proximity to industrially developed centres as revealed in the reports of Review Committees.

Delay exceeding one year in the disbursement of subsidy was noticed in six out of seven States test-checked in Audit. Entrepreneures had to bear the burden of interest charged by financial institutions on account of delay in obtaining reimbursement of subsidy disbursed by them, from the Central Government. Such interest burden as noticed in audit aggregated to about Rs.17 lakhs in Goa, Rs.21 lakhs in Punjab and Rs.193 lakhs in Rajasthan. Irregular payment of Central Investment Subsidy totalling Rs.13.81 crores was noticed during test-check. This included payment of subsidy to hotel units, subsidy paid for second hand machinery, excess payment due to non-reckoning of subsidy received from other sources and other irregular payments.

Though the schemes involved a total expenditure of Rs.817 crores by way of Central subsidy, no effective monitoring was done by the Ministry. The prescribed quarterly/annual progress reports were not obtained from the States/Union Territories. The Ministry did not have data relating to the functioning of the assisted units.

As regards the extent of evaluation carried out, the Ministry stated in March 1990 that by calling for half yearly reports regularly and insisting on the State Governments to complete the projects, the scheme of Central assistance for development of infrastructural facilities in 'no-industry' districts was evaluated. It was seen that the State Governments had not been furnishing the reports regularly and no meaningful evaluation was possible.

The Ministry further stated that no evaluation of the Transport Subsidy Scheme had been made. In regard to the Central Investment Subsidy Scheme, all he State Governments were equested in June 1988 to send detailed information about the units assisted, but with the discontinuance of the scheme from October 1988, the States were not showing any interest.

MINISTRY OF INDUSTRY

(Department of Industrial Development)

Central Subsidy Schemes for Industrial Development in Backward Areas

1. Introduction

Government in the Ministry of Industry (Ministry) have been operating three subsidy schemes viz.

(i) Scheme of Central assistance for development of infrastructural facilities in no-industry' districts, 1983,

(ii) Central Transport Subsidy Scheme, 1971 and

(iii)Central Investment Subsidy Scheme, 1971 (discontinued in October 1988)
with the objective of correcting regional disparities through industrialisation of backward areas.

2. Scope of Audit

Records relating to the implementation of the three Schemes for the period from 1982-1983 to 1988-89 were test checked during April-July 1989 in the Ministry and in the offices of the Directors of Industries, financial institutions and selected District Industries Centres (DICs) in 28 States/Union Territories.

A review on the Central Investment Subsidy Scheme, 1971, was included in the Advance Report of the Comptroller and Auditor General of India, Union Government (Civil), for the year 1978-79. The deficiencies pointed out in the Advance Report for the year 1978-79, however, still persisted.

A copy of draft review was sent to the Ministry in November 1989 for confirmation of facts and figures and comments, if any. The Ministry furnished their reply in March 1990 which was considered while finalising this review. In regard to irregular/inadmissible payments, the Ministry stated that it was for the respective State Government/Union Territory Administration to furnish the replies. It was pointed out to the Ministry in May 1990 that as the subsidy schemes were funded by Central Government, they were to obtain the necessary clarifications from the respective State Government/Union Territory Administration and furnish their comments. The comments of the Ministry had not been received (August 1990).

3. Organisational set-up

At the Centre, the Department of Industrial Development under the Ministry of Industry is responsible for the administration of the Schemes including provision of funds and reimbursement of subsidy to the States/Union Territories.

In the States*, State Level Committee (SLC) consisting of representatives of the departments concerned, is required to go into the merits of each case to decide the eligibility of the industrial units for subsidy. Based on the sanctions accorded by the SLC, disbursement of subsidy is made by the designated disbursing agencies. Claims for reimbursement are preferred by the SLC to the Government of India. The concerned department of the State Government is required to oversee the implementation of the schemes.

4. **Criteria for identification of backward States/ Districts**

The Planning Commission in 1969, identified 246 districts in 19 States as industrially backward and as eligible for concessional finance facility from financial institutions. This was based on criteria evolved by the National Development Council Committee. The criteria were (i) per capita foodgrains/commercial crops production, (ii) ratio of population to agricultural workers, (iii) per capita consumption of electricity and per capita industrial output, (iv) number of factory employees per lakh of population and (v) length of surfaced roads/railway mileage in relation to population. With the introduction of Central Investment Subsidy Scheme in August 1971, 101 districts, out of 246 districts were selected to qualify for the Central Investment Subsidy in addition to concessional finance.

In 1981, the districts having no large or medium scale industry as per the District Industries Centre Action Plan (1979-80) were identified as 'no-industry districts' for giving overriding priority in the grant of licences. Subsequently, the backward districts/areas were classified into three categories viz. 'A', 'B' and 'C' for graded subsidy. The categories were defined as follows:

Category 'A'	'No-industry' districts and special region districts.
Category 'B'	Districts/areas which were eligible for subsidy even prior to April 1983 i.e. from October 1970 and are not included in category 'A'.
Category'C'	Districts/areas which were eligible for concessional finance only prior to April 1983 and are not included in categories 'A' and 'B'.

*The term 'States' includes States and Union Territories in this Report.

Highest rate of subsidy was prescribed for 'no-industry districts' and 'special region districts'.

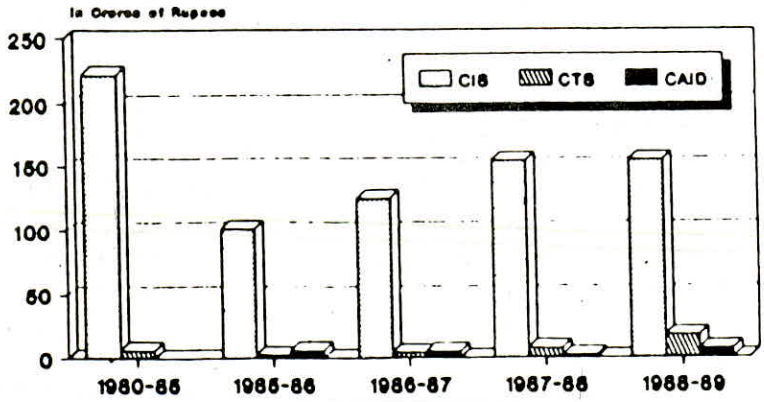
5. Financial outlay

Reimbursements made by the Union Government under the three schemes during the years 1980-89 amounted to Rs.816.75 crores as per details given below:-

(In crore of rupees)

Period	Reimbursement			Total
	Central Investment Subsidy	Central Transport Subsidy	Central assistance for infrastructural devlopent	
Sixth Five Year Plan				
1980-81 to 1984-85	222.73	6.02	-	228.75
Seventh Five Year Plan				
1985-86	101.27	2.73	6.00	110.00
1986-87	125.12	3.96	4.92	134.00
1987-88	154.35	7.65	2.00	164.00
1988-89	154.97	17.78	7.25	180.00
Total	758.44	38.14	20.17	816.75

REIMBURSEMENT



CIS - Central Investment Subsidy
CTS - Central Transport Subsidy
CAID - Central Asst. for Infra. Develop.

Central Investment Subsidy accounted for 93 per cent of the total expenditure during 1980-89. State-wise reimbursement of subsidy is given in Annexure-I.

Major modifications were introduced in the scheme from April 1983. Analysis of the reimbursements made from April 1983 to March 1989 (Annexure II) revealed that the share of 12 States was disproportionately low. Out of total reimbursement of Rs.669.81 crores made during this period, Eastern and North-Eastern States consisting of 83 backward districts accounted for Rs.97.23 crores only (14.52 per cent) while subsidy reimbursed to the remaining 214 districts in the other States amounted to Rs.572.58 crores (85.48 per cent).

District-wise data, relating to Gujarat, available with the State Government, revealed that out of eleven districts identified as backward, four districts received 83 per cent of the total subsidy disbursed during 1982-83 to 1988-89 and the remaining seven districts received only 17 per cent. Besides, while the number of small industrial units in the State increased from 43,712 to 88,325 during 1980 to 1987, the share of backward districts continued to remain constant at 26 per cent, indicating concentration of industries in non-backward districts. This was partially due to operation of State Subsidy Scheme with higher percentage of assistance to industries set up in non-backward districts. The Ministry stated in March 1990 that non-availability of infrastructural facilities in 'no-industry' districts was also a contributing factor for slow industrialisation of these districts.

6. Scheme of Central assistance for development of infrastructural facilities in no-industry districts

6.1 The Central Infrastructural Subsidy scheme was introduced from April 1983 with a view to assisting the State Governments to take up infrastructural development in one or two growth centres in each of the 93 'no-industry' districts so as to attract more industries to these areas.

The following criteria were to be satisfied by the growth centres:-

(i) population of 50,000 or more as per the 1971 census;

(ii) workers in non-household manufacturing as per the 1971 census should be less than 10,000; and

(iii) location should not be near existing industrial centres.

Assistance from Central Government would be limited to one-third of the total cost of infrastructural development subject to a maximum of Rs.2 crores per district. Either of the two patterns of financing the project could be followed by the State

Governments as indicated below:-

Pattern-I

Rs.2 crores as subsidy from the Central Government;

Rs.2 crores as the share of the State Government; and

Rs.2 crores as loan from the Industrial Development Bank of India (IDBI) on concessional terms.

Pattern-II

Rs.2 crores as subsidy from the Central Government;

Rs.4 crores as the share of the State Government; and

Rs.5 crores as loan from IDBI on concessional terms after the shares of the State and Centre are spent.

Central assistance was to be released in four equal instalments, each instalment equal to one twelfth of the total cost or Rs.50 lakhs whichever was less.

6.2 The scheme was initially sanctioned for a period of two years upto March 1985. The scheme is in operation thereafter though specific orders extending the scheme were not issued.

The scheme envisaged development of one or two growth centres in each of the 93 'no-industry' districts. Till March 1989, development of only 51 growth centres in 44 districts had been approved. As to the reasons for not covering the remaining 'no-industry' districts, the Ministry stated in August 1989 that suitable proposals from the State Governments had not been received. However, the fact remains that 53 per cent 'no-industry' districts had remained uncovered though the scheme had been in operation for the last six years.

6.3 Instalments of Central subsidy were released only to 35 growth Centres in 29 districts, out of which all the four instalments were drawn in respect of two growth centres in one district (Bidar in Karnataka). Not more than two instalments were drawn in respect of the remaining 33 growth centres in 28 districts. No release was made in respect of 16 approved growth centres till March 1989. Thus the progress of development of growth centres was tardy.

The Ministry stated (March 1990) that funds were released to the States as and when they sent the claims. The reply of the Ministry indicates that no initiative was taken to accelerate the progress of works in the growth centres.

6.4 Progress of the 13 growth centres for which first instalment was released during 1985-86 is indicated below:-

In Karnataka, though the full amount of Central subsidy

of Rs.2 crores had been released by March 1989 as against the project cost of Rs.11.34 crores for infrastructure development in two growth centres in Bidar district, development works like water supply, construction of roads, had not been completed. Expenditure incurred was only 59 per cent of the cost of the project till March 1989. Further, out of 1550 acres of developed plots, 827 acres remained unallotted.

In Orissa, total expenditure in Phulbani and Bolangir growth centres, for which Central subsidy of Rs.100 lakhs was released amounted to only Rs.39.82 lakhs (Phulbani Rs.1 lakh and Bolangir Rs.38.82 lakhs) till March 1989. The negligible progress in Phulbani was attributed to delay in land acquisition. In Bolangir, against a provision of Rs.600 lakhs for water supply works, only Rs.3.2 lakhs were spent. Shortfall was attributed to delay in acquisition of land, survey and investigation and finalisation of tenders for procurement of pipes for water supply. In Balasore growth centre, out of 481 acres of land acquired, only 200 acres of land had been developed and out of four zones, power supply to three zones and water supply to two zones had been completed till June 1989.

In Rajasthan, in respect of two growth centres of Sirohi district, the first and second instalments of Central subsidy totalling Rs.1 crore were released in 1985-86. The target date for completion of these two growth centres with a capital cost of Rs.6.80 crores was 31st March 1988; expenditure upto March 1989 was Rs.4.71 crores.

In Uttar Pradesh, in respect of six growth centres, in Jaunpur (1), Jalaun(1), Kanpur Dehat(1), Fatehpur(1) and Sultanpur (2) districts, first instalment of Central subsidy totalling Rs.250 lakhs was released in 1985-86 even before approval of the projects in 1987-88. Second instalment totalling Rs.250 lakhs was released in 1988-89. Expenditure incurred upto March 1989 ranged from 29 per cent(Sultanpur) to 51 per cent (Jalaun) of the estimated cost of the projects. Slow progress was attributed to problems in land acquisition and shortage of technically qualified staff.

6.5 The scheme was liberalised in July 1986 for the States in the North Eastern Region, whereby in a project of Rs.4 crores in a 'no-industry' district in that region, the share of the Union Government was to be 50 per cent within the overall ceiling of Rs.2 crores per 'no-industry' district. The State Governments could finance the remaining Rs.2 crores either from their own budget or by taking loan from IDBI. Central assistance was to be released in four equal instalments, each instalment equal to one-eighth of the total cost or Rs.50 lakhs whichever was less.

Though ten growth centres

in nine districts were approved for development in North Eastern States, subsidy of Rs.50 lakhs was released in 1987-88 only in respect of Luangmual growth centre of Aizawal district in Mizoram. 292 acres of land was acquired for the growth centre at a cost of Rs.50 lakhs in January 1989 but no other work had progressed. Project reports for two growth centres in Arunachal Pradesh submitted to Union Government in September 1987 had not been approved (May 1989). In Nagaland, the project had not been approved by the State Level Committee (May 1989).

Thus, despite the liberalisation of scheme in respect of the North Eastern States, the scheme made little progress in this region.

7. Central Transport Subsidy Scheme

7.1 **Salient features:** The scheme originally notified in July 1971 provided for payment of subsidy equivalent to 50 per cent of transportation cost of raw material and finished products between designated rail heads/ports to the location of the industrial units in selected hilly/ remote/inaccessible areas. The scheme was made applicable to Andaman and Nicobar Islands, Himachal Pradesh, Jammu and Kashmir, Lakshadweep, North Eastern Region, Sikkim, hill areas of Uttar Pradesh and Darjeeling district of West Bengal. Quantum of subsidy was enhanced to 75 per cent with effect from April 1983. It was further enhanced to 90 per cent with effect from September 1986 in respect of industrial units set up in Andaman and Nicobar Islands, Lakshadweep, North Eastern Region and Sikkim and with effect from December 1986 in respect of units set up in Jammu and Kashmir. Identified promotional institutions which transact business on behalf of small village and cottage industries were also made eligible for transport subsidy with effect from April 1983.

7.2 **Inadmissible/irregular payments of subsidy:** In Andaman and Nicobar Islands, claims involving transportation by road were not paid to any unit during 1982-83 to 1988-89. The Administration stated in June 1989 that the freight rates for transportation by road were fixed by it during June 1987 and that due to delay in the fixation of the rates, road transport subsidy claims could not be processed. The Administration could not indicate the total number of claims kept pending but stated that the pending claims were being attended to. Thus, procedural delays affected the scheme adversely for five years.

In Arunachal Pradesh, overpayments amounting to Rs.2.13 lakhs were made to five units during November 1988 to January 1989 due to inclusion of five per cent surcharge on freight applicable to goods transported on Freight to pay' basis. Though sawn timber was not to be reckoned as finished product as clarified by Central Government, three

units in the State were granted transport subsidy totalling Rs.12.62 lakhs for movement of sawn timber during May to November 1986.

In Assam, over payments totalling Rs.4.21 lakhs were made to 11 units during February 1985 to February 1988, due to inclusion of five per cent surcharge on freight applicable to goods transported on 'Freight to pay' basis.

In Himachal Pradesh, scrutiny of claims of a unit in Bilaspur district revealed that the actual expenditure on freight charges was less than that admitted which resulted in overpayment of Rs.17.29 lakhs during 1986-87. On this being pointed out by Audit, it was stated by the State Government (May 1989) that the matter would be looked into. Further progress was awaited.

In Jammu and Kashmir, Central subsidy of Rs.12.12 lakhs was paid to a flour mill in Srinagar which had been paid transport subsidy of Rs.9.46 lakhs in 1987-88 under the State scheme. As per instructions of Central Government issued in July 1986, transport subsidy was not admissible in cases in which transport costs were subsidised under any other scheme of the State Government. Further, subsidy was not admissible for the transport of wheat as the transport cost was subsidised under another scheme. However, transport subsidy of Rs. 21.07 lakhs was paid during 1988-89 to two flour mills (Mill 'A' - Rs.8.13 laks and Mill 'B' - Rs.12.94 lakhs) in the State. A joinery unit of Anantnag was paid Central transport subsidy of Rs.1.90 lakhs in 1988-89 although the unit had not been in operation since 1985-86.

In Meghalaya, one unit in Burnihat transported finished products between January 1982 and March 1983 to the designated railhead Siliguri, by road, and limited its claim for subsidy to the amount admissible had the product been transported by rail. For limiting the claim, the higher rate of Rs.11.66 per quintal applicable to transporation in small wagons of 10 quintals was adopted instead of the lower rate of Rs.8.43 per quintal applicable for a larger wagon. This resulted in overpayment of Rs.1.13 lakhs. The claims of the unit for the period from March 1986 to June 1988 were made adopting rates which included five per cent surcharge on freight for goods transported on 'Freight to pay' basis. This resulted in overpayment of Rs.1 lakh for transportation of 1.20 lakh quintals of finished product. Thus, the total amount of Rs.2.13 lakhs was overpaid to the unit.

In Sikkim, a departmentally-run industrial unit was granted subsidy totalling Rs.16.37 lakhs during March 1985 to May 1989 though departmentally-run units were not eligible for transport subsidy. In four cases, subsidy amounting to Rs.5.81 lakhs was irregularly paid on transportation of packing material and fuel though

subsidy was admissible only on transportation of raw-material for manufacture. In 30 cases subsidy totalling Rs.70.38 lakhs was paid during 1983-84 to 1988-89, without verification of documents like transportors' bills, sales invoices, etc.

8. Central Investment Subsidy Scheme

8.1 Extension of the scheme in short spells: According to the scheme, as notified in 1971, outright subsidy was payable to a unit at the rate of 10 per cent, subject to a maximum of Rs. 10 lakhs, on fixed capital investment, i.e. investment on land, building and plant and machinery. This was enhanced to 15 per cent subject to a maximum of Rs. 15 lakhs from March 1973. This was further enhanced to 20 per cent subject to a maximum of Rs. 20 lakhs in respect of North Eastern region and Sikkim from March 1981. The scheme was further modified from April 1983 whereunder, industrially backward areas were grouped into three categories, viz. 'A', 'B' and 'C'. For category 'A' comprising identified 'no-industry' and Special Region districts, subsidy was made available at 25 per cent subject to a maximum of Rs.25 lakhs (enhanced to Rs. 50 lakhs for setting up electronic units in hill districts with effect from April 1985). For category 'B', subsidy payable was 15 per cent subject to a maximum of Rs.15 lakhs and for catagory 'C', 10 per cent subject to a maximum of Rs. 10 lakhs.

The scheme originally sanctioned up to March 1975 was extended on a year to year basis till March 1987. Thereafter, it was extended in short spells of four months, six months, two months and finally for six months upto September 1988. The Ministry stated (March 1990) that National Committee on Development of Backward Areas (NCDBA) submitted its report in 1980 and suggested setting up of 126 growth centres in the country. Pending final decision on its recommendations, the industrially backward districts were recategorised. Subsequently, in July 1985, the Government set up an Inter-ministerial Committee to revise the Central incentive schemes. The Committee submitted its report in December 1986. In view of these facts, Central Investment Subsidy Scheme was extended in short spells from time to time.

The Inter-ministerial Committee recommended that the scheme might be continued during the Eighth Plan. The scheme was discontinued from October 1988. In July 1989, it was decided that for projects sanctioned upto September 1988, disbursements made upto September 1989 (non-manufacturing units) and upto December 1989 (manufacturing units) would be eligible for reimbursement.

Extension of the scheme on annual basis from 1975-76 till March 1987 and in shorter spells thereafter, imparted an element of uncertainty for

entrepreneurs to plan investment for setting up industries.

Information relating to total number of units approved, number established and the number actually functioning in the States was not available with the Ministry and the Ministry had no means of monitoring the progress of the scheme.

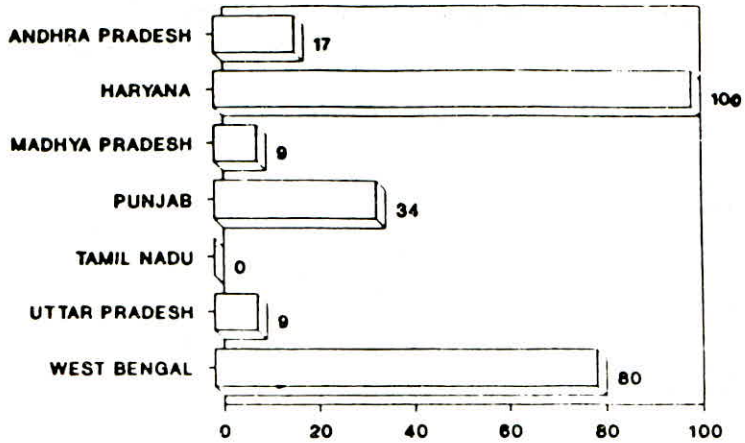
In April 1983, the Ministry decided that in areas where investments on ground exceeded Rs.30 crores as on 31st March 1983, further investment should not qualify for subsidy. Though such areas were identified in 1983, there was no further review for exclusion of such areas where investment had exceeded the specified limit.

8.2 **Delay in disbursement of subsidy:** Disbursements of subsidy were made by designated agencies on the basis of sanctions issued by the State Level Committee.

Table given below indicates extent of delay in disburseents of subsidy in the cases test checked in seven States.

State	Total number of paid claims	claims paid within one year	claims paid after one year	Percentage (col. 4 to col. 2)	Claims received till March 1988 outstanding till March 1989 Number	Amount (Rs. in lakhs)
1.	2.	3.	4.	5.	6.	7.
Andhra Pradesh	4594	3834	760	17	403	368.99
Haryana	865	-	865	100	51	61.75
Madhya Pradesh	5294	4806	488	9	172	46.93
Punjab	834	554	280	34	115	100.00
Tamil Nadu	3697	3697	-	NIL	-	-
Uttar pradesh	1279	1166	113	9	30	Not available
West Bengal	263	53	210	80	184	121.02

DELAYED CLAIMS
(SETTLED AFTER 1 YEAR)



Figures in %

It will be seen that in Tamil Nadu, all the claims were paid within one year and no claim was paid within one year in Haryana. Payments were made after one year in a large number of cases in West Bengal (80 per cent) and Punjab (34 per cent). Further, a large number of claims received till March 1988 remained unpaid till March 1989 in Andhra pradesh, West Bengal and Punjab.

In other States, the records maintained did not enable analysis of extent of delay. No time limit was fixed for settlement of claims either by the Ministry or by the State Level Committees.

The Ministry stated (March 1990) that lack of funds with the States and the delayed re-imbursements by the Ministry once again due to non-availability of funds were some of the reasons for delay in disbursement of subsidy by the States/financial institutions to the eligible units.

8.3 **Burden of interest on entrepreneurs:** The scheme provided that the financial institutions sanctioning loans to units would disburse the subsidy in as many instalments as the loans were disbursed and simultaneously claim reimbursement from the Central Government through State Level Committee.

The financial institutions (disbursing agencies) sanctioned bridge loan (short term loan) for the amount of subsidy approved by the SLC to the units and claimed reimbursement. There is no provision in the scheme regarding payment of interest on delayed reimbursement of subsidy. However, it was noticed during test check that entrepreneur had to bear the burden of interest charged on the bridge loan by the State financial institutions.

In Goa, in respect of 92 units, against bridge loans totalling Rs.224.18 lakhs disbursed during May 1982 to

March 1989, Rs.17.38 lakhs were charged towards interest. Part of the subsidy was thus appropriated towards interest.

In Punjab, the financial institution recovered interest of Rs.20.77 lakhs from 492 industrial units due to delay in getting reimbursement of Rs.434.36 lakhs from the Central Government during 1982-83 to 1988-89.

In Rajasthan, during 1982-83 to 1988-89, Rs. 136.07 lakhs were recovered by Rajasthan Financial Corporation (RFC) as interest from units in cases where the reimbursement was delayed beyond six months. Similarly, Rs. 50.35 lakhs and Rs. 6.57 lakhs were charged from 189 and 6 units by Rajasthan State Industrial Development and Investment Corporation Limited and Industrial Credit and Investment Corporation of India respectively on this account.

Scrutiny of subsidy claims preferred by RFC during 1986-87 to 1988-89 revealed that out of 5570 claims for Rs.1731.58 lakhs, 1383 claims for Rs.310.73 lakhs were preferred by RFC after one year. In respect of 275 claims, involving Rs.27.57 lakhs, the delay in prefering the claims by RFC ranged from two to five years. For 681 claims for Rs.302.54 lakhs, the Director of Industries took two to six months in scrutiny and claiming reimbursement from Central Government. Reimbursement of 2412 claims for Rs. 677.08 lakhs from the Central Government took two to seven months.

The Ministry stated (March 1990) that the financial institutions had been requested not to charge interest for six months on the subsidy released to the units but a majority of the institutions charged interest from the date of disbursement.

8.4 **Advance claiming of reimbursement**: States were to claim reimbursement from the Central Government after disbursement of subsidy to the units. Test check revealed that States mentioned below obtained reimbursement without actual disbursement of subsidy to the units.

In Andhra Pradesh, the State Level Committee sanctioned subsidy of Rs.278.48 lakhs during July 1987 to March 1988. Against this amount, Andhra Pradesh State Finance Corporation (APSFC) disbursed only Rs.30 lakhs till May 1988 but preferred claims for reimbursement of Rs.271.11 lakhs in May 1988 and obtained reimbursement from Central Government in October 1988. APSFC also released Rs. 92.20 lakhs between August and October 1988 and thereafter, cheques for Rs.148.91 lakhs were released to the units. Claiming of reimbursement of Rs.271.11 lakhs by APSFC when it had actually disbursed only Rs.30 lakhs was irregular.

In Goa, Economic Development Corporation of Goa which was disbursing subsidy

in instalments to the units had been claiming reimbursement of the last instalment (15 per cent) of subsidy by recording a certificate that the amount had actually been disbursed to the units, though instalment subsidy remained to be disbursed. An amount of Rs.2.19 lakhs received from Central Government in respect of 14 units had remained undisbursed (May 1989) with the Corporation from nine months to four years. Further, the Corporation had received (October 1988 to April 1989) Rs. 3.49 lakhs, towards reimbursement of last instalment of subsidy in respect of 22 non-manufacturing units without actually disbursing the amounts.

In Sikkim, reimbursement claims were preferred without ascertaining actual disbursement from the disbursing agency. Even though a sum of Rs.544.78 lakhs only was actually disbursed by Sikkim Industrial Development and Investment Corporation by May 1989, Rs.591.30 lakhs were got reimbursed by April 1989.

8.5 **Recovery of dues from closed/sick units:** An industrial unit going out of production within a period of five years of commencement was liable to refund the subsidy availed of by it.

The Ministry did not have any system for obtaining information regarding functioning of the assisted units and no watch was kept in regard to recovery of subsidy from closed units. Information available in the States revealed the following position:-

In Madhya Pradesh, in 22 out of 36 districts, for which information was made available by the State Government, 174 units had closed down and subsidy of Rs.184.09 lakhs was due for recovery.

In Rajasthan, 842 units, which received a total subsidy of Rs.407.84 lakhs, went out of production within five years from the date of commencement of production. 574 closed/sick/defaulting units were taken over by financial institutions during 1982-83 to 1988-89. Out of these, 252 units were sold for Rs.599.74 lakhs. An amount of Rs.182.85 lakhs recovered was adjusted against loan account without apportioning any amount towards subsidy though according to the decision of SLC, amounts recovered were to be apportioned between financial institutions and Central Government in the ratio of loan to subsidy. The amount adjustable towards subsidy worked out to Rs.24.21 lakhs.

The Ministry stated (March 1990) that monitoring the progress of assisted units was entirely the responsibility of State Governments as they were in a better position to do so. The fact remains that due to absence of monitoring, Ministry had no information as to the amounts due to be recovered, as also the amounts awaiting to be credited to Central Government.

8.6 **Irregular payment of subsidy to hotel units:** Hotel industry was made eligible for subsidy from January 1977 subject to the following conditions:-

(i) Investments made in hotels prior to Ist January 1977 were not eligible.

(ii) only those establishments classified as hotels by State Governments were eligible.

(iii)Subsidy was admissible on investments in fixed assets and not on movable assets such as furniture, crockery, etc.

Irregular payment of subsidy for investment in movable assets totalling Rs.14.42 lakhs was made to 21 units in Andhra Pradesh (Rs.5.19 lakhs), Arunachal Pradesh (Rs. 0.11 lakh), Gujarat (Rs.0.84 lakh), Jammu and Kashmir (Rs.2.43 lakhs), Kerala (Rs.0.15 lakh), Mizoram (Rs.4.11 lakhs), Nagaland (Rs.1.35 lakhs) and Sikkim (Rs.0.24 lakh).

Further, amounts totalling Rs.3.03 lakhs were irregularly paid during 1982-88 to six units in Himachal Pradesh, Kerala, and Sikkim on the basis of investments on the premises utilised for purposes other than hotel viz., residential, shopping complex, etc.

According to the orders, issued by the Central Government in September 1986, hotel units claiming subsidy under the scheme were required to have at least 10 lettable rooms of which 50 per cent should have attached bathrooms. It was noticed during test check that subsidy totalling Rs. 21.93 lakhs was paid to 22 units which did not fulfill this eligibility criterion as per details given below:-

States	No. of units	Amount (Rs.in lakhs)
Gujarat	7	6.60
Jammu and Kashmir	6	5.93
Mizoram	4	1.36
Sikkim	3	4.22
Tripura	2	3.82
Total	22	21.93

The Ministry stated (March 1990) that the responsibility was that of the State Governments concerned as the eligibility of an investment had to be determined by the State Level Committee.

8.7 **Subsidy for second hand machinery:** Subsidy on second hand machinery was admissible subject to the following conditions:-

(i) Value to be reckoned would be the least of (a)original price less depreciation (b) the present market value and (c) actual price paid at the time of transfer. Valuation was to be certified by a Chartered Accountant.

(ii) Subsidy should not have been paid for the machinery in question to its earlier owners.

(iii)The effective life of the machinery should not have expired and the machinery should be capable of producing satisfactory results for atleast five years from the date of transfer.

In Orissa, subsidy of Rs.11.48 lakhs was paid to one unit during May 1984 to November 1985 for procuring second hand machinery at a cost of Rs. 45.93 lakhs without evaluation report or technical certificate. The unit closed down in January 1986 within one year of commencement of production (March 1985).

In Arunachal Pradesh, subsidy of Rs.2.53 lakhs was paid on investment on second hand plant and machinery only on the basis of a certificate from the seller to the effect that no subsidy was paid earlier on this plant and machinery and without verifying the fulfilment of the other conditions.

The Ministry stated (March 1990) that as the eligibility of an investment had to be determined by the State Level Committee, the responsibility was that of the State Governments concerned.

8.8 **Non-commissioning of assisted units:** An industrial unit could be paid 85 per cent of the admissible subsidy in advance of the commencement of production.

One unit in Haryana was paid full amount of subsidy of Rs.8.14 lakhs (Rs. 2.01 lakhs in June 1982 and Rs.6.13 lakhs in February 1989). The unit was still to commence production (June 1989).

In Punjab, four units were paid subsidy of Rs.46.17 lakhs (85 per cent of the admissible subsidy) during January 1985 to December 1988. Although they were required to commence production between June 1984 and September 1986, the units had not started production till May 1989.

Further, it was noticed that though part subsidy of Rs.102.18 lakhs was paid to one unit in Andhra Pradesh (Rs. 7.68 lakhs in April 1976 to April 1981), 31 units in Gujarat (Rs. 76.04 lakhs during 1981-87), 16 units in Pondicherry (Rs.10.60 lakhs during 1983-84 to June 1987) and one unit in Rajasthan (Rs.7.86 lakhs during April to June 1988), the units did not commence production (March 1989).

In four districts of Rajasthan, 59 units availed subsidy of Rs.25.65 lakhs in part. Assets to the requisite extent were not created by 57 units and two units abandoned the projects. Thus subsidy paid did not achieve the purpose nor was the amount of subsidy recovered.

The Ministry stated (March 1990) that release of subsidy at stages was governed by the instructions contained in the manual issued by the Central Government for the

purpose. The State Governments were required to adhere to the procedures prescribed thereunder and only claims duly supported by documents were reimbursed.

8.9 **Excess subsidy due to non-reckoning of release of Subsidy by other agencies:** Instructions issued by the Central Government in October 1978 provided that industrial units assisted by organisation/agencies constituted by the Central Government/State Government/Union Territory Administration for industrial development would be eligible for Central Investment Subsidy (CIS) only if the subsidy or grant received/to be received from such organisations was less than the amount of CIS admissible in each case. CIS in such cases would be limited to the amount by which the subsidy or grant received/to be received from the organisations fell short of the CIS admissible to the units.

In Kerala, two units, 'A' and 'B', were paid CIS of Rs.9.41 lakhs and Rs. 11.89 lakhs in December 1986 and August 1988 respectively. These units had also received subsidy of Rs.14.45 lakhs (unit 'A') between January and May 1987 and of Rs.0.90 lakh (unit 'B') between January 1986 and June 1987 from Marine Products Export Development Authority, Cochin, resulting in excess payment of CIS to the tune of Rs.10.31 lakhs. Unit 'A' had, however, refunded part subsidy of Rs. 2.20 lakhs (March 1989).

CIS of Rs. 356.19 lakhs was paid to 536 units in three districts in Punjab during 1984-85 to 1988-89 even though these units had received capital subsidy at 15 per cent of the fixed capital investment under a scheme of the State Government and were, therefore, not eligible for CIS.

8.10 **Other irregular payments:** (i) A unit was eligible for subsidy for expansion if additional fixed capital investment was not less than ten per cent of its original investment, resulting in increase in capacity, improved techniques in the manufacturing process or manufacture of other items, modernisation or diversification. It was seen, in test check, that subsidy totalling Rs.11.72 lakhs was paid to one unit in Andhra Pradesh, twelve units in Haryana, six units in Orissa and five units in Punjab despite non-fulfilment of the conditions.

(ii) Central subsidy to registered small scale service establishments was required to be restricted to the capital investment not exceeding Rs.2 lakhs on plant and machinery. The units were also required to be located in rural areas and towns with a population of five lakhs or less. Test check revealed that subsidy ranging from Rs.0.60 lakh to Rs. 8 lakhs was paid to six units in Jammu and Kashmir (Rs. 21.19 lakhs) and five units in Gujarat (Rs.4.37 lakhs) without observing these restrictions.

(iii)An industrial unit, which took effective steps on or after 1st October 1970 was eligible for subsidy under the scheme. The term effective steps denoted one or more of three steps. viz. (a) paying upto 60 per cent of the capital issued for the industrial unit(b) construction of a substantial part of the factory building (c) placing firm orders for substantial part of the plant and machinery. In Meghalaya, an industrial unit which had taken effective steps for expansion prior to 1st October 1970, was paid subsidy of Rs.25 lakhs during October 1976 to March 1987, to which it was not eligible.

(iv) Investment on land and building to the extent needed for the purpose of the plant were eligible for subsidy and expenditure on guest houses, office accommodation, staff quarters etc. was not to be included. Test check showed that an amount of Rs.118.30 lakhs was overpaid to 220 units in 18 States by considering investment on items like staff quarters, administrative block/residence cum-office, rented building/ portion of building rented out, godowns, furniture/ fixtures, gas cylinders, books which were not eligible for Central Investment Subsidy.

(v) Subsidy of Rs.33.73 lakhs was paid to 117 units in Bihar (Rs.7.03 lakhs) and Mizoram (Rs.26.70 lakhs) without proper verification and obtaining valid documents in support of the reported capital investments.

(vi) Block/talukas/urban agglomeration or extension of township where investments had exceeded Rs.30 crores as on 31st March 1983 were excluded from the purview of the scheme with effect from April 1983. A test check revealed that subsidy of Rs. 131.18 lakhs was paid to four units in Andhra Pradesh (Rs. 10.07 lakhs), eight units in Gujarat (Rs. 33 lakhs), four units in Haryana (Rs. 36.85 lakhs), seven units in Maharashtra (Rs. 4.42 lakhs), six units in Punjab (Rs. 34.92 lakhs) and 14 units in Rajasthan (Rs. 11.92 lakhs) in areas which were excluded from the purview of the scheme.

It came to notice in Audit that in Similiguda block in Orissa though investment in nine units had exceeded Rs. 30 crores by 31st March 1983, a further subsidy of Rs. 7.30 lakhs was paid between 1985-86 and 1988-89.

Further, although the ceiling of Rs. 30 crores investment had exceeded in Bhiwadi Industrial Area in Alwar district in Rajasthan in 1985-86 when total investments of units financed by RIICO and RFC alone (excluding investments made by units financed by IDBI, IFCI and ICICI) exceeded Rs.40.24 crores, no orders for discontinuing further payment of subsidy had been issued by the Central Government. Subsidy totalling Rs.5.10 crores was paid to units during 1986-87 to 1988-89.

(vii)As per provisions of the scheme, departmentally-run

units were not eligible for Central Investment Subsidy. However, in Sikkim, a departmentally-run factory was leased out to a private party in 1987. Subsidy of Rs.8.92 lakhs (Central Investment Subsidy of Rs.3.95 lakhs and Central Transport Subsidy of Rs.4.97 lakhs) was sanctioned to the factory from March to November 1987 and paid to the Director of Industries (Rs.2 lakhs) and the ex-Managing Director of the factory (Rs.6.92 lakhs) in March to May 1988. Out of this total amount of Rs.8.92 lakhs, Rs.2 lakhs were paid (June 1988) to the lessee in order to clear its liabilities on account of Central Excise Duty. No record regarding the accountal, release and utilisation of the balance amount of Rs. 6.92 lakhs was made available to Audit.

(viii) Central Government decided in May 1985 to extend the concessions/incentives under the scheme to Amritsar district in Punjab as a special case. Entrepreneurs setting up new industries thus became eligible for Central subsidy at the rate of 10 per cent of fixed capital investment subject to a maximum of Rs.10 lakhs under this incentive. However, subsidy of Rs.66.85 lakhs was disbursed during 1986-87 to 1988-89 to 61 units which were already existing.

(ix) Although printing and publication of newspapers was not an industry eligible for subsidy under the scheme, two units of Pondicherry engaged in printing of daily newspapers and weekly magazines were paid subsidy of Rs.5.93 lakhs between January 1984 and September 1988. The Central Government reimbursed Rs.4.38 lakhs (Rs.3.23 lakhs in August 1984 and Rs.1.15 lakhs in April 1988) and rejected the claim for the amount of Rs.1.32 lakhs in May 1988 on the ground that printing of newspapers was not covered under the scheme. The amount had not been recovered from the units concerned.

(x) Central Investment Subsidy Scheme was not extended after 30th September 1988. Central Government clarified in July 1989 that reimbursement would be made in cases where the projects were approved by the SLCs/DLCs on or before 30th September 1988. However, subsidy totalling Rs.8.23 lakhs to 36 units in Rajasthan was irregularly sanctioned during October to December 1988.

(xi) In September 1988, it was decided to exclude goods carriers for computing capital cost for Central Investment Subsidy. However, total subsidy of Rs. 3.77 lakhs was paid during October to December 1988 to seven units in Himachal Pradesh (Rs.3.42 lakhs) and one unit in Kerala (Rs.0.35 lakh) on investments made on goods carriers.

The Ministry stated (March 1990) that the responsibility was that of the State Governments concerned as the eligibility of an investment had to be determined by the State Level Committee.

(xii) In three cases in

Haryana, subsidy of Rs. 2.31 lakhs was got reimbursed during October 1987 to October 1988 from the Central Government in excess of the amount actually disbursed to the units. In seven cases, Rs.8.28 lakhs were claimed and got reimbursed twice during the period October 1983 to March 1989 from Central Government.

9. Monitoring of schemes

9.1 State Level Committees were required to submit to Central Government quarterly progress reports in the prescribed proforma detailing sanctions, disbursements made, bottlenecks or handicaps in working of the scheme or any other important matter concerning Central Investment Subsidy Scheme. Further consolidated statements in the prescribed proforma of the annual progress reports obtained from the assisted units were also to be furnished to Central Government. The assisted units were required to furnish to disbursing agencies annual audited statement of accounts and balance sheet within nine months from the close of the year for first five years to enable disbursing agency to satisfy itself about the working of the units.

The department did not make available the files relating to the receipt of annual/quarterly reports from the State Governments, excepting two files containing quarterly progress reports for the quarter ending March 1985 in respect of Madhya Pradesh and for the quarters ending March and June 1987 in respect of Andaman and Nicobar Islands. It was stated by the Ministry that no files were opened for 1988 and 1989 as no reports had been received during the period. Ministry stated (March 1990) that submission of reports by States was not insisted upon as States had been asking for immediate reimbursement of Central subsidy claims when sufficient funds were not available with it. Thus Ministry had no worthwhile data relating to the progress of the scheme for monitoring.

Lack of monitoring was among the aspects highlighted in the Advance Report of the Comptroller and Auditor General of India, Union Government (Civil), for the year 1978-79. There was no improvement in this regard over the years.

9.2 Central Government directed the State Governments in June 1988 to set up cell for monitoring interalia utilisation of Central Investment Subsidy and to conduct a review of the scheme at least twice a year (September and April). The findings of the review were also required to be furnished to Central Government in October and May.

Till end of March 1989, only six States had set up monitoring cells. Even from these States, no report had been submitted to Central Government. No monitoring arrangements were prescribed for the other two schemes.

9.3 Though the Central Investment Subsidy Scheme and Central Transport Subsidy Scheme were introduced in 1971 and the Scheme of Central assistance for development of infrastructural facilities in 'no-industry' districts was introduced from April 1983 and a total amount of Rs.817 crores was spent under the schemes by the Central Government during 1980-89, monitoring arrangements in the Centre were ineffective.

10. Evaluation

10.1 The working of the various incentives for development of industries in backward areas was reviewed by a high level National Committee on the Development of Backward Areas (NCDBA) set up by Planning Commission in 1978. In its report on 'Industrial Dispersal' submitted in 1980, the Committee brought out inter-alia, the following aspects relating to the working of Central Investment Subsidy Scheme:

(a) The benefits of the scheme had accrued to a small number of districts in the West and in the South.

(b) Fifty six per cent of the subsidy disbursed had been accounted for by 15 out of the 101 districts for which the scheme was applicable.

(c) Most of the 15 districts were in close proximity to relatively developed industrial centres.

(d) Share of several industrially backward States like Assam, Bihar, Orissa and Jammu and Kashmir was very small.

The Committee emphasised that the requirement of industrial dispersal would be better met by (i) modifying the coverage of the scheme to areas sufficiently away from existing industrially developed centres; (ii) development of suitable infrastructure; and (iii) coordinated efforts to achieve the objective. It identified 126 growth centres all over the country on the basis of three criteria adopted by it viz., (a) population of 50,000 or over (b) level of employment in non-household manufacturing less than 10,000 workers and (c) location being away from the existing industrial centres. Out of these, 100 growth centres were recommended for development over a 10 year period.

Pending final decision on the recommendations of NCDBA the Industrial Infrastructural Subsidy Scheme was introduced in April 1983 with a view to assisting the State Governments to takenup infrastructural development in one or two growth centres in each of the 93 'no-industry' districts. Although an amount of Rs.20.17 crores had been spent upto 31st March 1989, work in respect of no growth centre had been completed.

10.2 An Inter-ministerial Committee under the Chairmanship of Secretary, Planning Commission was appointed in July 1985 by the Ministry of

Industry to formulate a revised incentive scheme for industrialisation of backward areas. The Committee submitted its report in December 1986. The salient findings and recommendations of the Committee included:

(a) Most of the districts benefited by Central investment subsidy were in close proximity to relatively industrially developed centres. It, therefore, recommended that the areas eligible for incentive scheme should be away from the existing industrial centres, and their zone of influence.

(b) Block should be the unit for demarcating industrial backwardness.

(c) All blocks with investment of more than Rs.30 crores in industrial units which had gone into production as on 31st March 1985 should be excluded from benefits uder the scheme.

(d) Industrially backward areas determined on the basis of the block be divided into two categories for purpose of graded subsidy and benefits.

(e) 139 growth centres identified in 29 States/UTs were recommended for development during the seventh and eighth plan. To ensure certainty and continuity the list of growth centres should remain unchanged till the end of Eighth Five Year Plan.

(f) The Committee also recommended that the incentive scheme be continued during the Eighth Plan period.

The Central Investment Subsidy Scheme was, however, discontinued with effect from October 1988. A new scheme for setting up 100 growth centres with a capital investment of Rs.30 crores for each growth centre was formulated in December 1988.

10.3 In regard to the extent of evaluation carried out, the Ministry stated in March 1990 that all the State Governments were requested in June 1988 to send detailed information about the units assisted under the Central Investment Subsidy Scheme but with the discontinuance of the scheme from October 1988, the States were not showing any interest.

The Ministry, further, stated that no evaluation of the Transport Subsidy Scheme had been made and that the State Governments had been addressed for information about the units which had benefited from the scheme, with details of beneficiaries under small, medium and large scale sectors. In regard to the scheme of Central assistance for development of infrastructural facilities in 'no-industry' districts, the Ministry stated that by calling for half yearly reports regularly and insisting the State Governments to complete the projects, the Ministry is evaluating the scheme. However, it was seen that the State Governments had not been furnishing the reports regularly and no meaningful evaluation was possible.

11. Summing up

- Central Investment Subsidy accounted for 93 per cent of the total expenditure of Rs.816.75 crores on subsidy schemes for industrial development of backward areas during 1980-89.

- The backward districts were categorised into 'A', 'B' and 'C' in 1983 for entitlement to graded subsidy. Despite this modification in the scheme, re-imbursement of subsidy to the Eastern and North-Eastern States was disproportionately low.

- Test check of the district-wise data relating to Gujarat available with the State Government revealed that while the number of small scale industrial units in the State increased from 43,712 to 88,325 during 1980-1987, the share of backward districts continued to remain constant at 26 per cent indicating concentration of industries in non-backward districts.

- Only 51 growth centres in 44 districts were approved till March 1989 though the Scheme of Central assistance for development of infrastructural facilities in 'no-industry' districts envisaged development of one or two growth centres in each of the 93 'no-industry'districts. Fifty three per- cent of the identified 'no-industry' districts had remained uncovered though the scheme has been in operation for six years. Subsidy was released only to 35 growth centres in 29 districts. No subsidy was released in respect of 16 approved growth centres till March 1989. The progress of development of growth centres was tardy. Thirteen growth centres for which first instalment of subsidy was released during 1985-86 were not completed till March 1989. Despite liberalisation of the scheme of Central assistance for development of infrastructural facilities in 'no-industry' districts in July 1986 in respect of North-Eastern States, the scheme made little progress in that region, as central assistance was released for only one growth centre.

- In-admissible and irregular payments totalling over Rs.1.64 crores noticed in Audit under Central Transport Subsidy Scheme included:

  - payments of Rs.39.50 lakhs on transportation of material not covered under the scheme;

  - over - payments of Rs.25.76 lakhs due to reckoning higher rates than admissible;
  - payments of Rs.16.37 lakhs to departmentally-run units;

  - payments of Rs.70.38 lakhs without verification of documents.

  - Payment of Rs.12.12

lakhs to a unit which had obtained subsidy under a State scheme.

- Subsidy claims for road transport from 1982 were not paid in time in Andaman and Nicobar Islands due to delayed fixation of freight rates in June 1987.

- Extension of the Central Investment Subsidy Scheme on annual basis from 1975-76 till March 1987 and in shorter spells thereafter upto September 1988 imparted an element of uncertainty for entrepreneurs to plan their investment.

- Ministry decided in April 1983 that in areas where investments on ground exceeded Rs.30 crores as on 31 March 1983, further investment should not qualify for subsidy. There was no further review for exclusion of such areas where investments had exceeded the specified limit.

- Delay exceeding one year in disbursement of subsidy was noticed in six out of seven States test checked.

- Entrepreneurs had to bear the burden of interest charged by financial institutions on account of delay in obtaining reimbursement of subsidy disbursed by them from the Central Government. Such interest burden as noticed in audit aggregated to Rs.17.38 lakhs in Goa, Rs.20.77 lakhs in Punjab and Rs.192.99 lakhs in Rajasthan.

- The Ministry did not have data regarding functioning of the assisted units. No watch was kept for recovery of subsidy from units which closed down within a period of five years.

- Irregular payments of Central Investment Subsidy totalling Rs.13.81 crores were noticed. These included:

  - payments to hotel units (Rs.39.38 lakhs).

  - subsidy for second hand machinery (Rs.14.01 lakhs).

  - excess payments due to non-reckoning of subsidy received from other sources (Rs.366.50 lakhs).

  - Other irregular payments.(Rs.984.06 lakhs)

- In six States, 113 units which availed of subsidy totalling Rs.1.82 crores during April 1976 to December 1988 did not commence production.

- The Central Investment Subsidy Scheme envisaged close monitoring by Ministry for which submission of quarterly/ annual progress reports by States was prescribed. The Ministry did not obtain such reports.

- No effective monitoring was done though the schemes invovled total expenditure of Rs.817 crores during 1980-89.

- Most of the districts benefited by the Central Investment Subsidy Scheme were in close proximity to relatively industrially developed centres indicating inadequate industrial dispersal according to the findings of the National Committee on development of backward areas and Inter-ministrial Committee.

- The Inter-ministrial Committee recommended that the Central Investment Subsidy Scheme be continued with certain corrective measures during the Eighth Plan period. The scheme was discontinued with effect from October 1988.

- As regards the extent of evaluation carried out, the Ministry stated in March 1990 that by calling for half yearly reports regularly and insisting on the State Governments to complete the projects, the scheme of Central assistance for development of infrastrural facilities in 'no-industry' districts was evaluated. It was seen that the State Governments had not been furnishing the reports regularly and no meaningful evaluation was possible.

- The Ministry further stated that no evaluation of the Transport Subsidy Scheme had been made. In regard to the Central Investment Subsidy Scheme all the State Governments were requested in June 1988 to send detailed information about the units assisted, but with the discontinuance of the scheme from October 1988, the States were not showing any interest.

New Delhi
The 6 SEP 1990

(D.S. IYER)
Principal Director of Audit
Economic & Service Ministries

Countersigned

New Delhi
The 7 SEP 1990

(C.G. SOMIAH)
Comptroller and Auditor General of India

Annexure I
(Refers to paragraph 5)

Statewise reimbursement of Central Investment Subsidy made by Union Government during 1980-89

A. States/Union Territories identified as industrially back ward

S. No.	State/Union Territory		Reimbursement made by Union Government (Rupees in crores)	Percentage to the total reimbursement
1.	Andaman and Nicobar Islands	(2)	1.19	0.16
2.	Andhra Pradesh	(19)	62.92	8.31
3.	Arunachal Pradesh	(6)	2.41	0.32
4.	Assam	(10)	19.26	2.54
5.	Bihar	(17)	12.91	1.70
6.	Dadra and Nagar Haveli	(1)	10.38	1.37
7.	Goa, Daman and Diu	(1)	30.97	4.08
8.	Himachal Pradesh	(12)	50.10	6.61
9.	Jammu and Kashmir	(14)	37.05	4.89
10.	Lakshadweep	(1)	-	-
11.	Madhya Pradesh	(41)	65.37	8.62
12.	Meghalaya	(5)	1.97	0.26
13.	Mizoram	(2)	14.29	1.88
14.	Nagaland	(7)	10.43	1.37
15.	Orissa	(8)	16.42	2.16
16.	Pondicherry	(1)	17.89	2.36
17.	Rajasthan	(16)	58.74	7.74
18.	Sikkim	(4)	5.93	0.78
19.	Uttar Pradesh	(41)	98.23	12.95
	Total	(208)	516.46	68.10

Note: The figures with in brackets () indicate the number of identified industrially backward districts in the State/Union Territory.

(B) States/Union Territories not identified as industrially backward

S.No.	State/Union Territory		Reimbursement made by Central Government (Rupees in crores)	Percentage to total reimbursement
1.	Gujarat	(11)	48.52	6.40
2.	Haryana	(7)	12.69	1.67
3.	Karnataka	(11)	32.55	4.29
4.	Kerala	(7)	19.26	2.54
5.	Maharashtra	(14)	27.74	3.66
6.	Manipur	(6)	3.21	0.42
7.	Punjab	(5)	20.03	2.64
8.	Tamil Nadu	(12)	61.84	8.15
9.	Tripura	(3)	1.38	0.18
10.	West Bengal	(13)	14.76	1.95
	Total	(89)	241.98	31.90

A: 516.46

B: 241.98

Grand Total 758.44

Note: The figures within brackets () indicate the number of identified industrially backward districts in the State/Union Territory.

Annexure - II

(Refers to paragraph 5)

Region-wise and State-wise reimbursement of Central Investment Subsidy made by Union Government during April 1983 to March 1989

Sl.	State/Union Territory		Reimbursement made by Union Government	Percentage to the total reimbursement
			(Rupees in crores)	
(A)	**Eastern and North Eastern Region**			
1.	Andaman and Nicobar Islands	(2)	0.91	0.14
2.	Arunachal Pradesh	(6)	2.33	0.35
3.	Assam	(10)	18.69	2.79
4.	Bihar	(17)	11.82	1.76
5.	*Manipur	(6)	2.79	0.42
6.	Meghalaya	(5)	1.69	0.25
7.	Mizoram	(2)	14.14	2.11
8.	Nagaland	(7)	10.42	1.56
9.	Orissa	(8)	14.40	2.15
10.	Sikkim	(4)	5.74	0.86
11.	*Tripura	(3)	1.30	0.19
12.	*West Bengal	(13)	13.00	1.94
	Total	(83)	97.23	14.52
(B)	**Northern Region**			
1.	*Haryana	(7)	9.80	1.47
2.	Himachal Pradesh	(12)	46.10	6.88
3.	Jammu and Kashmir	(14)	34.58	5.16
4.	*Punjab	(5)	15.02	2.24
5.	Uttar Pradesh	(41)	96.14	14.35
	Total	(79)	201.64	30.10

(C)	**Southern Region**			
1.	Andhra Pradesh	(19)	55.63	8.30
2.	*Karnataka	(11)	26.57	3.97
3.	*Kerala	(7)	16.09	2.40
4.	Lakashdweep	(1)	Nil	--
5.	Pondicherry	(1)	16.46	2.46
6.	*Tamil Nadu	(12)	50.04	7.47
	Total	(51)	164.79	24.60
(D)	**Western Region**			
1.	Dadra and Nagra Haveli	(1)	9.89	1.48
2.	Goa, Daman Diu	(1)	27.05	4.04
3.	*Gujarat	(11)	37.79	5.64
4.	Madhya Pradesh	(41)	61.27	9.15
5.	*Maharashtra	(14)	21.65	3.23
6.	Rajasthan	(16)	48.50	7.24
	Total	(84)	206.15	30.78
	Grand Total(A+B+C+D)	(297)	669.81	100.00

Note:- The figures in brackets () indicate the number of identified industrially backward districts in the State/Union Territory.

* States/Union Territories not identified as industrially backward.