

INDUSTRIES AND COMMERCE DEPARTMENT

3.2 Transport Subsidy

Highlights

The Transport Subsidy Scheme was launched in the State in 1975-76 with a view to promoting industrialisation in remote and hilly areas. A review of the implementation of the scheme revealed that the Department of Industries and Commerce had failed in exercising required statutory checks before release of transport subsidy to the industrial units. This resulted in unauthorised, excess, irregular and inadmissible payments. The State Government never assessed the impact of subsidy disbursed to industrial units on industrial growth.

Against the claim of Rs. 1093.20 lakh, Rs. 297.06 lakh was paid between December 1997 and June 2001 though no raw materials/finished goods were imported or exported.

(Paragraph 3.2.8)

The scheme was applicable for a period of five years from the date of commencement of commercial production. However, reimbursement of transport subsidy of Rs. 111.64 lakh was made even beyond the period of 5 years.

(Paragraphs 3.2.10 & 3.2.11)

Payment of transport subsidy of Rs. 66.40 lakh to 9 tyre retreading units and 1 cattle feed unit was made during December 1997 to June 2001 though they do not come under the purview of manufacturing activity.

(Paragraph 3.2.13)

The scheme envisages the disbursement of the transport subsidy to industrial units first by the State Government and reimbursement thereafter from the Central Government. However, payment of transport subsidy of Rs. 890.28 lakh was made between May 1997 and August 1998 after getting reimbursement from the Central Government by furnishing incorrect statement of facts.

(Paragraph 3.2.18)

Introduction

3.2.1 To promote industrialisation in certain hilly and remote areas of the country, including the seven states of the North Eastern Region (NER), Government of India introduced "Transport Subsidy Scheme" in July 1971. Under the scheme, industrial units (IU) in the North East engaged in manufacturing activities (barring plantation, refineries and power generating units) both in private and public sectors are eligible for subsidy (at rates fixed from time to time by Government of India) on transportation cost of raw materials and finished goods to and from the designated rail head (Siliguri) to the railway stations nearest to the industrial units and thereafter by road to the industrial unit. The scheme has been extended upto 31 March 2007.

Organisational set up

3.2.2 In Nagaland, the Transport Subsidy Scheme has been in operation since 1975-76. The Secretary, Industries and Commerce Department, Government of Nagaland is the nodal authority to oversee the implementation of the programme. The programme is implemented by the Director of Industries and Commerce who is assisted by General Managers of 8 District Industries Centres (DICs) at the district level. The competent authority in the state is the State Level Committee (SLC) for final settlement and recommendation. The SLC consists of the Secretary (Industries & Commerce) as Chairman, the Director (Industries & Commerce) as Member Secretary and Additional Secretary (Finance), Managing Director, North Eastern Development Financial Institution (NEDFI) and Managing Director, Nagaland Industrial Development Corporation (NIDC) as member.

Audit Coverage

3.2.3 Implementation of the scheme in the State during the period 1997-98 to 2001-2002 was reviewed in audit during March 2002 to June 2002 through test check of records of the Director of Industries and Commerce, Kohima, 2 District Industries Centres (out of 8) at Kohima and Dimapur and Managing Director, NIDC. The implementation of the scheme was also cross verified with the records of Sales Tax, Power and Central Excise Department. Important points noticed during audit are discussed in the succeeding paragraphs.

Financial Outlay and Expenditure

3.2.4 According to the scheme, the State Government is required to disburse the transport subsidy on the recommendation of the SLC and thereafter claim reimbursement from the Central Government. From 2000-2001 onward the claim for subsidy along with the recommendation of the SLC were to be sent to the NEDFI for direct payment to the industrial units. The detailed provisions made in budget for transport subsidy and expenditure thereagainst are shown in the table below :-

Table No.3.10 *(Rupees in crore)*

Year	Budget provision			Expenditure			
	Budget estimate	Revised estimate	Final grant	Expenditure as per Appropriation Accounts.	Actual expenditure	Excess (+) Savings (-)	Percentage of savings/excess
1997-98	0.10	0.10	7.10	6.65	9.03	(+) 1.93	27
1998-99	0.10	0.10	2.29	2.29	11.86	(+) 9.57	418
1999-2000	0.10	7.39	4.70	4.70	4.30	(-) 0.40	-
2000-01	7.39	1.79	1.79	1.79	1.79	-	-
2001-02	1.97	7.37	5.60	NIL	5.60	(-) 1.77	32
Total	9.66	16.75	21.48	15.43	32.58		

(Source - Appropriation Accounts, Budget and departmental records)

3.2.5 The above table indicates that the department incurred expenditure of Rs. 9.03 crore and Rs. 11.86 crore towards payment of transport subsidy during 1997-98 and 1998-99 against the actual provisions of Rs. 7.10 crore and Rs. 2.29 crore respectively, resulting in excess expenditure by 27 per cent and 418 per cent.

3.2.6 It was stated that Rs.5.60 crore was sanctioned by the State Government during 2000-2001 but payment was made in 2001-2002. Out of Rs. 5.60 crore, Rs. 2.29 crore was disbursed by the Director of Industries and the balance of Rs. 3.31 crore by NEDFI direct to the industrial units.

Implementation of the programme

Payment of transport subsidy claim in doubtful cases

3.2.7 As per guidelines, the claimant should be asked to provide proof of raw materials imported into and finished products out of State. The claims for reimbursement of transport subsidy were to be reimbursed by the Director of Industries and Commerce (DOIC) and SLC before final settlement. The DOIC, Nagaland, while accepting claims insisted on Sales Tax Clearance Certificate in addition to other requisite documents viz. certificate by Chartered Accountant, road challan, cash memo etc.

3.2.8 Test check of records of DOIC with reference to the records of Commissioner of Taxes, Nagaland revealed that between December 1997 and June 2001, Rs.297.06 lakh against the claim of Rs.1093.20 lakh was paid to 40 industrial units though as per records of Commissioner of Taxes no material was either imported or exported by these units. Thus, payment of Rs.297.06 lakh as detailed in *Appendix – XII* was questionable. Further out of 325 cases referred to the Commissioner of Taxes, Nagaland, details of only 40 cases were furnished. Hence, eligibility of the remaining 285 cases needs to be investigated.

3.2.9 The Government stated (September 2002) that since all claims were certified by Chartered Accountants and supported by registration details, road challans etc. these cannot be termed as doubtful. The reply is not tenable as the fact remains that as per records of the Commissioner of Taxes, no materials were either brought in or out by these units.

Inadmissible payment of transport subsidy

3.2.10 As per amendment made in the scheme (July 1993) effective from 1 April 1995 the scheme was applicable for a period of 5 years reckoned from the date of commencement of commercial production *i.e.*, industrial units which had completed 5 years of production as on 31 March 1995 would cease to be eligible for further benefits under the scheme. Further, the units which had commenced commercial production within a period of 5 years prior to or after 1 April 1995 would cease to be eligible once the five years period was over or expiry of the scheme whichever was earlier. Thus it was evident that as on 31 March 1995 no subsidy beyond the period of 5 years reckoned from the date of commercial production would be admissible to an industrial unit.

3.2.11 Scrutiny of records revealed that subsidy amounting to Rs.111.64 lakh had been reimbursed and paid by the State Government between December 1997 and September 2000 in respect of 10 ineligible units as detailed in the *Appendix-XIII*. This resulted in inadmissible payment of transport subsidy of Rs.111.64 lakh. The Government stated (September 2002) that the facts pointed out were not correct as date of issue of provisional registration were taken as the date of commercial production. The contention of the Government is not acceptable as actual dates of commercial production by the Industrial units as indicated in *Appendix – XIII* were considered by Audit as provided in the scheme.

3.2.12 According to provisions of transport subsidy scheme an industrial unit means the unit which carries on manufacturing activities. Repairing and reconditioning of an article do not fall within the definition of manufacturing activities as no new finished goods come out of this process. It is so even if in the process of remaking defective article/equipment gets upgraded or takes a different shape. Accordingly, tyre retreading works and production of cattle/poultry feed do not come under the purview of manufacturing activity as no new finished goods come out of the process.

3.2.13 Test check of records of the Directorate office revealed that against the claim of Rs.138.95 lakh for transportation of raw materials from Siliguri to Dimapur by 9 tyre retreading units and Rs.29.52 lakh by one unit engaged in production of cattle feed (1993-94 to 1998-99), Rs.62.40 lakh and Rs.4 lakh respectively were paid as transport subsidy on the recommendation of SLC between December 1997 and June 2001. Details of payment made to the tyre retreading units are shown in the *Appendix-XIV*. The reimbursement and payment of transport subsidy of Rs.66.40 lakh was, thus, inadmissible and irregular.

3.2.14 The Government stated (September 2002) that neither the guidelines nor any subsequent instructions had disqualified tyre retreading units from claiming subsidy. The reply is not acceptable as repairing and reconditioning of an article cannot be termed as manufacturing activity even within Central Excise law. The reimbursement was to be made only to units engaged in manufacturing activity.

3.2.15 The Department of Industrial Policy and Promotion (DIPP) in a circular issued in May 1993 advised all the State Government/Union Territories (UT) not to accept the claims of transport subsidy preferred after one year from the date of incurring the expenditure. Despite further reiteration in May 1994, the DOIC disbursed an amount of Rs.78.50 lakh between September 1998 and June 2001 to 3 Industrial units who submitted their claims after stipulated period of one year as detailed in *Appendix-XV*.

3.2.16 The Government stated (September 2002) that the time barred claim were accepted considering the various bottlenecks faced by the entrepreneurs of Nagaland. Thus, reimbursement of time barred claims amounting to Rs.78.50 lakh violating the instruction of Government of India was irregular.

Reimbursement of subsidy claimed by mis-statement of fact

3.2.17 Under the transport subsidy scheme, the State Government is required to disburse the subsidy to the industrial units on the basis of SLC recommendation and thereafter claim reimbursement from the Government of India.

3.2.18 Test check of records of the Directorate and the disbursing agency, NIDC revealed that the NIDC claimed reimbursement for Rs.890.28 lakh in 3 batches from Government of India through the State Government during 1996-98 stating that the amounts had already been disbursed by cheques in respect of 25 units by furnishing false cheque numbers and dates. The Government of India, accordingly reimbursed Rs.890.28 lakh in 4 batches between May 1997 and August 1998. But cross verification, with the records of NIDC, revealed that the disbursements were actually made after getting reimbursement from the Government of India. The reason for this misstatement of fact as analysed by audit was only to get reimbursement from Government of India.

3.2.19 The Government stated (June 2002 and September 2002) that the payments were made after getting reimbursement due to financial constraints and funds received from Government of India were duly disbursed. The reply is not tenable as claiming of reimbursement by furnishing false statement was a clear violation of the principle of reimbursement under the scheme.

3.2.20 As per scheme there is no provision for cash payment of transport subsidy. It was also clarified (February 1995) by the Ministry (Department of Industrial Development) that claims of subsidy for reimbursement should not be entertained unless the same was paid by cheque/bank draft. The Directorate while claiming reimbursement of subsidy for Rs.198.92 lakh in January 1998 from the Government of India, stated that the amount was disbursed to 28 industrial units in December 1997 by cheques though the payments were actually made by cash between December 1997 and January 1998. The DIPP sanctioned the reimbursement in August 1998. The claim for reimbursement of subsidy of Rs.198.92 lakh by the Director on the basis of fake report was, thus, irregular. The Government admitted the fact (September 2002).

Unauthorised payment of transport subsidy

3.2.21 DIPP sanctioned reimbursement of Rs. 373.80 lakh for 14 industrial units between 1997-98 and 1998-99 on recommendations of SLC but it was noticed that the disbursing agency, NIDC disbursed Rs.253.68 lakh to 14 eligible industrial units during 1997-98 to 1998-99. The balance amount of Rs.120.12 lakh was diverted and utilised for payment of transport subsidy to other 21 industrial units between June 1998 and December 1998 (detail shown in *Appendix – XVI*) which was neither sanctioned nor approved by SLC for this purpose, The Secretary Industries and Commerce Department stated (September 2002) that disbursement of reimbursement claims were made as per direction of State Government. The reply is not acceptable as State Government is not competent to allow such payment. Hence, payment of transport subsidy of Rs.120.12 lakh to such units was unauthorised and irregular.

Excess payment of transport subsidy

3.2.22 The scheme provides that in the case of movement of raw materials/finished goods entirely by road or other mode of transport inside/outside the North Eastern Region, the transport subsidy will be limited to 90 *per cent* of the amount which the unit might have paid, had the same been moved from location of the industrial units to the nearest Railway Station by road and thereafter by rail to Siliguri and vice versa subject to further deduction of 6 *per cent* railway concession for movement of raw materials/finished goods.

3.2.23 Test check of the records maintained in the Directorate revealed that, Rs.12.53 lakh was paid in excess of the amount payable on the basis of approved railway rates between March 1998 and June 2001 to 6 industrial units their claims from 1992-93 to 1996-97 as detailed in the *Appendix-XVII*. Such omissions clearly indicated that the scrutiny of claims at the Directorate/SLC level was glaringly deficient in many respects.

3.2.24 Admitting the fact the Government stated (September 2002) that efforts are being made to recover the excess payment.

Monitoring and evaluation

3.2.25 The guidelines provides that to oversee the efficient and successful implementation of the Scheme a representative from Ministry of Industries Development, Government of India is to be nominated in the SLC. It was, however, observed that the meetings of the SLC for finalising the claims of industrial units were never attended by the representative of the Government of India during the period covered by review.

3.2.26 Though the Government of India emphasised the need for systematic and result oriented monitoring system, the State Government did not evolve any monitoring system to watch the functioning of the industrial units to ensure effective implementation of the Scheme. The Directorate and NIDC

continued to send reimbursement claims containing wrong figures of disbursements of transport subsidy. Lack of effective monitoring of implementation of the Scheme and post disbursement inspection led to mis-utilisation of subsidy by the beneficiaries.

3.2.27 Regretting the lapses the Government stated (September 2002) that instructions would be issued to the department to strictly comply with the guidelines.

3.2.28 The Transport Subsidy Scheme has never been evaluated by the Government of India to assess the impact of implementation and how far the objectives of the scheme to promote industrial growth have been achieved.

Recommendations

3.2.29 On the basis of the shortcomings and deficiencies pointed out in the foregoing paragraphs, the following recommendations are made.

The procedure and guidelines prescribed by the Government of India from time to time to ensure payment of transport subsidy only against genuine claims should be followed strictly.

The procedure for quick disposal of the claims as well as prompt payment of the claims for transport subsidy as envisaged in the scheme should be adopted.

To ensure proper implementation of the scheme, monitoring and co-ordination among different departments particularly Sales Tax and Power Departments of the State Government should be strengthened.

Immediate action is required to prevent payment of any residual amount yet to be paid for the fake claims approved by SLC.

The functioning of SLC for proper monitoring the programme should be strengthened and Government of India representative should participate its meeting.

Evaluation of the programme to assess impact of its implementation should be stressed upon.

3.2.30 The matter was reported to Government in August 2002. Government replies (September 2002) were incorporated in the relevant paragraphs.