Chapter I
Economic Sector

CHAPTER I
ECONOMIC SECTOR

1.1 Introduction

This chapter of the Audit Report deals with audit observations on the functioning of the Government departments under Economic Sector.

The names of the departments and the total budget allocation and expenditure of the Government under Economic Sector during the year 2017-18 are given in the table below:

Table 1.1.1
Details of budget allocation and expenditure

(₹ in crore)

Sl. No.	Name of the Department	Total Budget Allocation	Expenditure
1	Animal Husbandry, Livestock, Fisheries and Veterinary Services	63.22	53.38
2	Buildings and Housing	111.80	109.89
3	Commerce and Industries	89.83	83.26
4	Co-operation	20.80	20.12
5	Energy and Power	382.03	286.73
6	Food Security and Agriculture Development	99.64	49.66
7	Forest, Environment and Wildlife Management	219.37	120.00
8	Horticulture and Cash Crops Development	167.45	79.76
9	Water Resources and River Development	182.40	45.54
10	Mines, Minerals and Geology	5.12	4.96
11	Roads and Bridges	445.50	388.68
12	Rural Management and Development[1]	651.92	574.63
13	Tourism and Civil Aviation	146.18	88.23
14	Transport	70.79	69.37
15	Urban Development and Housing	307.46	248.75
16	Water Security and Public Health Engineering	157.41	81.43
TOTAL		**3,120.92**	**2,304.39**

Source: Appropriation Accounts 2017-18.

Besides, the Central Government had been transferring funds directly to the implementing agencies under the Economic Sector. The major transfers for implementation of flagship programmes of the Central Government are detailed below:

[1] *The budget allocation and expenditure under RMDD do not include Rural Housing Scheme which comes under social sector*

Table 1.1.2
Details of funds directly transferred to the implementing agencies

(₹ in lakh)

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing Agency	Funds transferred during the year
1	Co-operation	Capacity Building and Publicity	Sikkim State Cooperative Union	9.90
2	Forest, Environment and Wildlife Management	Establishment Expenditure AYUSH	State Forest Development Agency, Sikkim	318.56
3	Science and Technology	Schemes of North East Council - Special Development Projects	Sikkim Manipal Institute of Technology	4.12
4	Science and Technology	Science and Technology Institutional and Human Capacity Building	Sikkim Manipal Institute of Technology	11.47
5	Science and Technology	Space Technology	Sikkim Manipal Institute of Technology	0.50
	TOTAL			**344.55**

Source: Finance Accounts 2017-18

1.2 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls, etc.

After completion of audit of each unit on a test check basis, Inspection Reports (IRs) containing audit findings are issued to the heads of the departments. The departments are required to furnish replies to the audit findings within one month of receipt of the IRs. Whenever replies are received, audit findings are either settled based on reply/action taken or further action is required by the audited entities for compliance. Some of the important audit observations arising out of these IRs are processed for inclusion in the Audit Reports. The Audit Reports are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature for taking further appropriate action.

Test audits were conducted involving expenditure of ₹1,319.74 crore (including expenditure of ₹1,302.36 crore of previous years) of the State Government under Economic Sector. The details of year-wise break-up is given in **Appendix 1.1**.
This Chapter contains Performance Audit on ‘Development of Manufacturing Industries in Sikkim’ and six Compliance Audit Paragraphs.

COMMERCE AND INDUSTRIES DEPARTMENT

1.3 Development of Manufacturing Industries in Sikkim

Sikkim has been progressively moving towards industrialisation from the traditional activity of subsistence farming. After merger of Sikkim with India (May 1975), State Government created Directorate of Industries in 1977 with the objective of promoting and developing industries in the State. The Directorate was later converted (August 2003) into a full-fledged Department and renamed as Commerce and Industries Department (C&ID). With the creation of a full-fledged Department, the State Government aspired to attract investors to the State and thereby ensure economic prosperity for its people besides addressing the unemployment problem.

With the announcement of the GoI's package of incentives to the North Eastern Region through North East Industrial and Investment Promotion Policy, 2007 various manufacturing industries started setting up their units in Sikkim. Prior to 2007, there were only 16 manufacturing industries. As on date, there are 122 major manufacturing industries in the State.

A Performance Audit on development of manufacturing industries in Sikkim revealed that the C&ID was not adequately equipped to carry forward the policy objectives of industrialisation in the State as even the basic data of the industrial units, such as, complete list of industries, area occupied by each industry, investment in land, buildings, plant and machinery, date of commercial operation, number of persons employed, annual turnover, net profit earned, amount of incentives enjoyed from different sources, etc. *was not available with the Department. The Department did not carry out any study/survey regarding the benefits that accrued to the State as well as improvement in the wellbeing of the people of the State due to enhanced industrial activities.*

The C&ID's efforts were wanting in terms of collecting Infrastructure Development Fund (IDF) from the industrial units and ensuring earmarking of funds by industrial units for mandated Corporate Social Responsibility activities in the State. Allotment of Government land in the Growth Centre (GC) and industrial area at Mining[2], Rangpo was done in a non-transparent manner disregarding the actual requirement of land by the allotees. The monitoring of industrial activities in the State was lax as even the periodical submission of prescribed returns and reports by the industrial units was not followed up nor ensured by the Department.

[2] *An area under Mamring Block in East District*

Highlights

- ***Although the State had notified the State Industrial Policy more than two decades ago in December 1996, the C&ID had devised no overarching plan or strategy for synergy with different line departments for developing, creating and maintaining basic infrastructure like roads, power network and water supply to facilitate industrial growth in the State.***

  {Paragraph 1.3.7.1 (i)}

- ***The manufacturing industries inflated the per capita GSDP (PCG) of the people of the State by 60 to 64 per cent without making any significant contribution to either the State's revenue or the income of the people of the State as the revenues from the industries went to the manufacturing companies based outside the State.***

  {Paragraph 1.3.8}

- ***The total funds to be earmarked towards CSR activities by 15 companies during the period 2014-18 was ₹211.57 crore; out of which, the companies utilised ₹35.06 crore only resulting in short contribution of ₹176.51 crore.***

  (Paragraph 1.3.8.1)

- ***Out of ₹ 11.10 crore due towards industrial development fund (IDF) from 48 industrial units, only eight units paid ₹1.10 crore to the State leaving ₹10 crore as outstanding from 40 units.***

  (Paragraph 1.3.8.2)

- ***The percentage of local employment in 29 industries for which employment data was provided was to the extent of 43 per cent of the total employment mostly at the unskilled level. Out of the total skilled workforce, the percentage of locals was only 24 per cent indicating that the State still had a long way to go in skilling its unemployed youth.***

  (Paragraph No 1.3.8.3)

- ***The Development of a Growth Centre at Marchak, East Sikkim with central funding was stopped midway and was characterised by purchase of unsuitable land (₹2.67 crore), recurring loss of ₹2.87 crore per annum due to low allotment rate and non-transparent allotment of land to users without fixing standard norms and procedures.***

  (Paragraph 1.3.9)

1.3.1 Introduction

With the objective of promoting growth of industries in the State, the Sikkim Government notified the State Industrial Policy (SIP) in December 1996. The major objectives of the policy *inter alia* included creation of conducive environment for industrial growth; maintenance of Green State image; rapid development of basic infrastructure; human resource development through skill and entrepreneurship development programmes and behavioural training at all levels to meet the emergent skill requirements of the State within a stipulated time frame; protection and promotion of interest of the local people especially at the unskilled and semi-skilled levels by defining norms for a minimum percentage of employment to the local people in the industrial units and encouraging joint ventures between local entrepreneurs and industrialists from outside the State for setting up of industries within the State. The Commerce and Industries Department (C&ID) was responsible for the promotion and development of industries in the State.

With inclusion of Sikkim as the eighth State in the North East Region (NER), GoI extended (April 1997) the North East Industrial Policy (NEIP 1997) to Sikkim with various incentives upto March 2007. In April 2007, the North East Industrial and Investment Promotion Policy (NEIIPP) was announced by the GoI with a comprehensive set of subsidies, concessions and tax/duty exemptions. The NEIIPP brought a major turnaround in the growth of manufacturing sector in Sikkim. The types of industries existing in the State as of March 2018 were as under:

Table 1.3.1
Details of industries in Sikkim

Sl No	Type of industrial units	Number
1	Pharmaceutical/ Cosmetics Industries	56
2	Distilleries & Breweries	08
3	Food Processing	05
4	Ancillary and other units[3]	53
Total Manufacturing Industries		**122***
5	Tourism & Hospitality (Hotels/Resorts)[4]	105
6	Hydropower projects	07
	TOTAL	**234**

*Source: C&ID/State Pollution Control Board, Sikkim. * 16 units established prior to NEIIPP & 106 units thereafter.*

1.3.1.1 Incentives for industries

The State introduced certain incentives in the form of subsidy on cost for purchase of captive power generating sets, subsidy on transportation of Plant and Machinery, reimbursement of wage bill for local employees (30 *per cent*), reimbursement of training cost of local employees in State approved institutes (50 *per cent*) *etc.* under the Sikkim Industrial Promotion and Incentive Act[5], 2000 (SIPI). The incentives, however, were provided only for five years (2007-12) amounting to ₹ 78.15 lakh. Thereafter, during 2013-18, there were no State incentives for promotion of industrial growth in the State. This was due to introduction of a comprehensive package of incentives by the GoI for the NER under the NEIIPP, effective from 01 April 2007. The NEIIPP covered the seven NER States[6] and Sikkim.

Under the NEIIPP, all new as well as existing industrial units which had done substantial expansion[7] and which commenced commercial production within the 10 year period from the date of notification of NEIIPP were eligible for the following incentives for a period of 10 years from the date of commencement of commercial production: (a) 100 *per cent*

[3] *Mono-cartons, packaging materials, corrugated boxes, aluminium foil, electronics/electrical, goods etc.*
[4] *Two- Star and above.*
[5] *Initially notified in July 2000 and amended subsequently in August 2003 and May 2007.*
[6] *Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura.*
[7] *An increase by not less than 25 per cent in the value of fixed capital investment in plant and machinery.*

Excise Duty exemption on finished products; (b) 100 *per cent* Income Tax exemption; (c) Capital Investment Subsidy of 30 *per cent* of the investment in plant and machinery; (d) Interest Subsidy @ three *per cent* on working capital loan; (e) Reimbursement of 100 *per cent* insurance premium; and (f) Central Transport Subsidy[8] on the same terms and conditions as envisaged under North East Industrial Policy, 1997.

Prior to implementation of NEIIPP by the GoI, the State had only 16 manufacturing units. After introduction of NEIIPP, 106 new manufacturing units were added. Thus, implementation of NEIIPP by the GoI was a major contributing factor for growth of manufacturing industries in the State. While C&ID did not have any system of capturing and compiling the total investment of newly established industrial units in the State, Audit observed from data compiled from the industrial units that 58 major units established after introduction of NEIIPP had made a total investment of ₹ 1,962.70 crore in the State.

1.3.2 Organisational Set-up

The C&ID, as nodal Department for development of industries in the State, was mandated to implement and regulate the industrial development schemes and programmes in Sikkim. The C&ID is headed by a Principal Secretary and was supported in his day to day functions by a Secretary, two Joint Secretaries, two General Managers (DICs[9]), two Deputy Secretaries, an Accounts Officer, two Under Secretaries, and other sub-ordinate staff.

1.3.3 Audit Objectives

The Performance Audit (PA) on 'Development of Manufacturing Industries in Sikkim' was taken up with the objective to assess and evaluate:

- the effectiveness of planning and implementation of the State industrial policy and regulatory mechanisms put in place for development of industries in the State;
- the benefits derived by the State from establishment of industries and the development of growth centres and industrial areas; and
- the effectiveness of monitoring, supervision and evaluation of industrial development.

1.3.4 Audit Criteria

The audit observations were benchmarked against the following criteria:

1. Objectives of State Industrial Policy,1996;
2. Provisions of State Industrial Promotion and Incentive Act, 2000;
3. Terms and conditions incorporated in the North East Industrial Investment Promotion Policy (NEIIPP), 2007;
4. Provisions of Companies Act, 2013 and Companies (CSR Policy) Rules, 2014;

[8] *Subsidy is on transport of raw materials and finished goods on transport costs between the location of the industrial units in the State and the rail head of Siliguri @ 50 per cent on transport cost of both the raw materials as well as finished goods for new industrial units and existing industrial units (in case of substantial expansion or diversification).*

[9] *District Industries Centre.*

5. GoI notifications/orders on establishment of Growth Centres and Industrial Estates;
6. Various notifications and orders issued by the C&ID and Land Revenue & Disaster Management Department; and
7. Provisions of Environment (Protection) Act/Rules, 1986 and other extant rules, regulations, norms and guidelines laid down for protection of environment and control of pollution by the State and GoI from time to time.

1.3.5 Scope of Audit

The PA covering the period 2013-14 to 2017-18 focussed on the major manufacturing units availing various incentives provided by the GoI under NEIIPP and facilities provided at growth centres and industrial areas established with Government funding.

The audit objectives, audit criteria and methodology adopted for drawing the audit conclusions were discussed with the Departmental authorities in an Entry Conference (20 April 2018) with the Principal Secretary, C&ID and his team of officers. Records maintained at the Departmental Headquarters at Gangtok and the DICs located at Gangtok (North and East districts) and Jorethang (South and West districts) were examined. Besides the C&ID, Audit also obtained information relating to environment clearances and pollution management consents from the Forest, Environment and Wildlife Management Department and State Pollution Control Board. For subsidies, incentives and tax exemptions, information was sought from the North Eastern Development Finance Corporation (NEDFi), Central Excise and Customs Department and Central Board of Direct Taxes (Income Tax).

1.3.6 Audit Sampling

Out of 122 major manufacturing industries[10] (59 large manufacturing units, 24 medium category units and 39 small scale units) in the State, 53 industries (30 large manufacturing units, 11 medium category units, 12 small scale units) were selected for detailed examination in audit using Simple Random Sampling With Out Replacement (SRSWOR). Besides, one Growth Centre and two, out of four, industrial areas were also selected for detailed examination as detailed in **Appendix 1.2**.

Audit findings were discussed with the Departmental Officers in an Exit Conference (04 December 2018). The views and replies of the Department have been taken into account appropriately while finalising this PA.

[10] *Large Industries-investment in Plant & Machinery (P&M) above ₹ 10 crore; Medium Industries-investment in P&M above ₹5 crore up to ₹10 crore; Small Industries-investment in P&M above ₹25 lakh up to ₹5 crore.*

1.3.7 Audit Findings

Audit Objective 1: To assess and evaluate the effectiveness of planning and implementation of State industrial policy and regulatory mechanisms put in place for development of industries.

1.3.7.1 Implementation of Industrial Policy, 1996

The State's Industrial Policy (1996) had the core objective of promoting growth of industries in the State by *inter alia* providing a conducive environment for industrial growth; promoting the maintenance of Green State Image while promoting industrialisation; facilitating rapid development of basic infrastructure to facilitate industrial growth; facilitating human resource development; and encouraging joint ventures between local entrepreneurs and industrialists from outside the State.

However, Audit noticed that the efforts of the State Government towards materialising the objectives were wanting as brought out below:

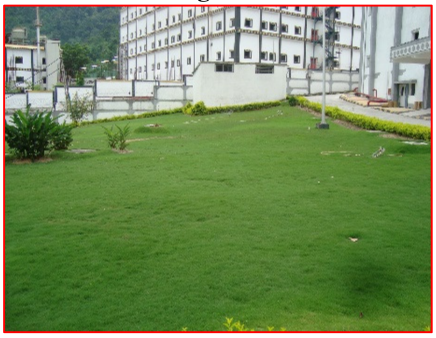
➢ The C&ID had devised no overarching plan or strategy for synergy with different line departments for developing, creating and maintaining basic infrastructure like roads, power network and water supply to facilitate industrial growth in the State. Audit noticed that the investors who were primarily attracted to the State due to availability of huge concessions and incentives under the NEIIPP of the GoI established their units primarily in East (88 units) and South (34 units) Districts where basic infrastructure like roads and power network already existed. No effort was made by the State to develop infrastructural facilities in the West and North Districts and also within the inner pockets of East/South Districts with a view to ensuring balanced industrial development of all the regions and districts in the State. Audit also noticed that although the State Industrial Policy was more than 20 years old, it had never been reviewed to keep up with the new developments *vis-à-vis* Central incentives and the rapid growth of industries in the State. Further, no institutional mechanism such as 'Single Window System' was put in place for speedy and hassle free grant of consents and clearances for establishing industries in the State.

The C&ID admitted (November 2018) that with the launch of GoI's incentives under NEIIPP, 2007, the State's own policy was pushed to the back burner as all industrial activities got largely covered by the GoI policy. However, action would be initiated to revisit the industrial policy to frame a new one in keeping with the current requirements. Based on the audit observations, a single window system for issuing clearances within fixed time frame was also being introduced by the C&ID, apart from implementing the 'Ease of Doing Business' plan of the GoI based on the norms of Department of Industrial Promotion & Policy.

➢ The C&ID's Memorandum of Understanding (MOU) signed with the industrial units had a clause 'Green Mission Issues' which envisaged (i) maintenance of greenery by the industrial units; (ii) earmarking a day in the year for plantation works in the factory/ industrial compound; and (iii) utilising the approach road and open available land for building greenery as contribution to the Green Mission as part of its social responsibilities.

Audit, however, noticed that the C&ID had not instituted any mechanism to verify the compliance of the conditions laid down in the MOU and to gauge the extent of contribution by the industrial units towards State Green Mission. The industrial units, however, did maintain green areas within their complexes as depicted in the photographs placed alongside. Audit also observed that 24 out of the 57 industrial units examined had earmarked a specific day during the year for plantation activities.

Image 1.3.1



Intas Pharmaceutical Limited Complex

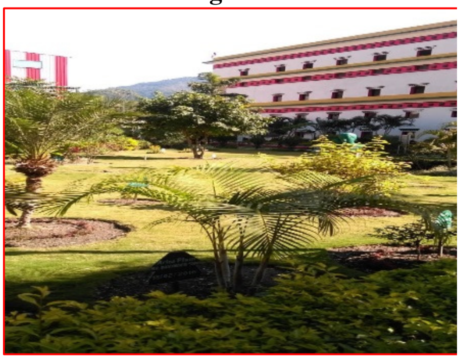
Image 1.3.2

Alkem Lab Complex

The C&ID responded (November 2018) that in order to maintain the Green image, the State did not permit any highly polluting industries like thermal power plants, chemical industries, *etc.* The C&ID while acknowledging that there was no specific prescription for maintaining green belt also stated that each industry maintained green area by planting various species of trees/ flowers. However, no compiled data was available in this regard.

➢ We noticed that the Department had not taken any initiative towards encouraging joint ventures between local entrepreneurs and industrialists from outside the State although envisaged under State's industrial policy.

Image 1.3.3



Cipla Pharma Complex

The C&ID stated (November 2018) that there were a few joint Ventures (JVs) with outside firms while a few more were expected to be entered into in the coming years *(HEBA Pharma, Shangrila Pharma, etc.)*. The Department further added that generally, the local people were not driven to enter into JVs with large firms based outside the State due to lack of experience, uncertainty associated with such ventures and also due to the sheer size of the capital investment required, and rather preferred opening and running hotels.

Thus, the implementation of the State's Industrial Policy was riddled with deficiencies including absence of an updated overarching plan and strategy in synergy with the line departments concerned; a mechanism for compliance of Green Mission Issues and creation of basic infrastructure; and encourage Joint ventures.

Recommendations (1, 2 & 3):

The C&ID may

- *expedite formulating an overarching strategy in coordination with the line departments for promotion of industrial development in the State;*
- *expedite the establishment of an institutional mechanism for creation and maintenance of basic infrastructure; and*
- *set up specific norms for maintaining the Green State Image of the State and to ensure compliance by the industrial units and to maintain required data in this regard.*

1.3.7.2 Regulation of industrial development

A robust mechanism for exercising due diligence with a well-defined hierarchy of duties and responsibilities and a proper system of recording receipt of proposals, their examination and vetting is an essential element for regulating the process of establishment of industries in the State. Audit observed the following deficiencies in the regulation of industries existing in the C&ID:

(i) Recording and processing of proposals

➢ Even more than 20 years after notification of the Industrial Policy, the C&ID had neither put in place a mechanism for vetting proposals nor did it have any departmental Manual/Hand Book delineating the process for grant of consent for establishment of industries in the State.

➢ The C&ID did not have complete and updated information on proposals received, processed, proposals rejected and proposals for which final consents were granted. Although a register to record the proposals was maintained, the dates of receipt of proposals, grant of final consent, commencement of commercial production and current status of the units were not recorded in the register. Further, the register had columns for entering data on employment, details of products proposed to be manufactured and the investment proposed to be made by the investor. These columns had not been filled in.

➢ As per the register, 138 applications seeking consent for establishment of industries had been received since 2004-05; out of which, approval for establishment of 95 industrial units had been granted, while, there was nothing on record as to whether the remaining 43 applications were approved or rejected, and if so, the reasons thereof. Audit also noticed[11] that there were 27 units functioning as on date whose details were not available in the register.

(ii) Grant of permissions

- There was no prescribed policy/norms for grant of consent to the applications/ proposals for establishment of different categories of industries within a reasonable

[11] *White Paper on industries prepared by the C&ID (February 2018) and information obtained from the industrial units.*

timeline. Examination of the process[12] of grant of consents in 38 cases pertaining to 53 sampled units revealed that the Principal Secretary granted consent in five cases, the Minister concerned in 29 cases and the Chief Minister (CM) in four cases. Further, the time taken for grant of consent ranged from 10 to 400 days[13] indicating lack of transparency and ad-hocism in grant of consent. Audit analysed a case where more than 100 days were taken for grant of consent and it was noticed that the reason for delay was the time taken in issue of consent letter which was issued 99 days after the Minister's approval which was accorded only after nine days of receipt of the proposal/application.

While agreeing to the Audit observation, the C&ID stated (November/December 2018) that it had initiated the process of putting in place a system to avoid unnecessary delays in future through an IT based system of recording proposals received, processed and approved. The Department further stated that it was also working on devising a Departmental Manual specifying the duties, responsibilities, powers and functions of the staff/officers for regulating its activities and streamlining its functioning.

Thus, the regulation of industries by the C&ID was marked by deficiencies due to the absence of a robust mechanism with well-defined systems and procedures duly supported by Departmental Manuals for processing and vetting of proposals and grant of consent.

Recommendation (4):

- *The C&ID may expedite the process of instituting a robust system of procedures with a well-defined hierarchy of duties and responsibilities for regulating the industries through its proposed IT application and also to expedite preparation of a Departmental Manual of the new system, besides prescribing timeframe within which various proposals and requests should be dealt with to avoid delays.*

Audit Objective 2: To assess and evaluate the benefits derived by the State from establishment of industries and the development of Growth centers and industrial areas.

1.3.8 Contribution of Manufacturing Sector to State's economy

Gross State Domestic Product/Per Capita GSDP vis-à-vis Manufacturing sector

After implementation of NEEIIP by the GoI, the State witnessed a quantum leap in its GSDP[14] and Per Capita GSDP (PCG[15]) due to growth of huge number of manufacturing companies in Sikkim. The growth of manufacturing sector *vis-à-vis* the GSDP during 2007-18 is depicted in the tables below. Two tables have been prepared as the GSDP was

[12] *The initial vetting of proposals was done by the Inspectors and escalated to the levels of Deputy Secretary, Joint Secretary, Director/ Secretary, Pr. Secretary and finally, to the Minister, C&ID and in some cases to the Chief Minister.*

[13] *23 cases- 10 to 50 days; 6 cases- 50 50 100 days; 7 cases- 3 to 10 days 2 cases- 100-400 days.*

[14] *GSDP is the final value of the goods & services produced within the geographic boundaries of a State during a year and is an important indicator of the economic performance of a State. GSDP is the total value of everything produced by all the people and companies in a State irrespective of whether the people belong to the State or not or the companies are owned by people of the State or outside the State.*

[15] *The PCG is calculated by dividing the GSDP by the population.*

worked out by the State for the period 2007-08 to 2011-12 using 2004-05 as the base year and for 2011-12 to 2017-18 using 2011-12 as the base year.

Table 1.3.2

GSDP *vis-à-vis* contribution of Manufacturing sector to GSDP 2007-08 to 2011-12 (base year 2004-05)

Year	GSDP (*₹in crore*)	Increase in GSDP (*per cent*)	Contribution of Manufacturing Sector to GSDP (*₹in crore*)	Increase of Manufacturing Sector (*per cent*)	Contribution of Manufacturing Sector to GSDP (*per cent*)
2007-08	2,506.09	15.96	106.11	22.84	4.23
2008-09	3,229.08	28.85	118.96	12.11	3.68
2009-10	6,132.76	89.92	1,811.16	1,422.49	29.53
2010-11	7,411.57	20.85	2,888.48	59.48	38.97
2011-12	8,906.64	20.17	3,525.55	22.06	39.58

Source: Directorate of Economic Statistics, Monitoring & Evaluation

Table 1.3.3

GSDP *vis-à-vis* contribution of Manufacturing sector to GSDP 2011-12 to 2017-18 (base year 2011-12)

Year	GSDP (*₹in crore*)	Increase in GSDP (*per cent*)	Contribution of Manufacturing Sector to GSDP (*₹in crore*)	Increase of Manufacturing Sector (*per cent*)	Contribution of Manufacturing Sector to GSDP (*per cent*)
2011-12	11,165.10	-	4,306.23		38.57
2012-13	12,338.42	10.51	4,625.62	7	37.49
2013-14	13,861.90	12.35	5,268.56	14	38.01
2014-15	15,406.72	11.14	5,866.06	11	38.07
2015-16	18,033.94	17.05	7,038.51	20	39.03
2016-17	20,020.46	11.02	7,766.50	10	38.79
2017-18	22,247.91	11.13	8,569.78	10	38.52

Source: Directorate of Economic Statistics, Monitoring & Evaluation

It can be seen from the above tables that the GSDP *vis-à-vis* Manufacturing sector witnessed a quantum leap in 2009-10 at 90 *per cent* and 1422 *per cent* growth respectively. This was the time when the major Pharma companies (Sun pharma, Zydus, Golden Cross, Intas, Cipla, Alkem, *etc.*) commenced their commercial production for the first time in the State. The growth continued after 2009-10 as more units commenced their commercial production. The contribution of the manufacturing sector to the State's GSDP rose from ₹ 106.11 crore in 2007-08 to ₹ 8,569.78 crore in 2017-18; an increase of 7,976 *per cent* over the decade 2007-18.

The manufacturing sector, which was the major contributor to GSDP, accounted for 37 to 40 *per cent* of the GSDP[16]. The high GSDP of the State gave rise to a very high PCG.

The State's GSDP *vis-à-vis* its population and corresponding PCG of the State was as under:

Table 1.3.4

GSDP *vis-à-vis* population and per capita GSDP

Year	GSDP (*₹in lakh*)	Population (*in lakh*)	Per Capita GSDP (₹)
2011-12	11,16,510	6.14	1,81,842
2012-13	12,33,842	6.21	1,98,686

[16] *The second highest contributor to the GSDP was electricity, gas and water supply, which accounted for 13 to 18 per cent followed by the Agriculture sector which accounted for 8 to 11 per cent.*

Year	GSDP (*₹ in lakh*)	Population *(in lakh)*	Per Capita GSDP (₹)
2013-14	13,86,190	6.27	2,21,083
2014-15	15,40,672	6.33	2,43,392
2015-16	18,03,394	6.40	2,81,780
2016-17	20,02,046	6.47	3,09,435
2017-18	22,24,791	6.53	3,40,703

Source: Directorate of Economic Statistics, Monitoring & Evaluation.

The PCG of the State rose by 87 *per cent* from ₹ 1,81,842 to ₹ 3,40,703 over the period 2012-13 to 2017-18. The PCG of the State in 2017-18 was 262 *per cent* of the per capita GDP of India which stood at ₹ 1,29,800. The contribution of manufacturing sector to the State's GDP raised the State to among the first three States with highest PCG in the country.

When the contribution of the manufacturing sector is deducted from the GSDP, the corresponding GSDP *vis-a-vis* PCG would be as under:

Table 1.3.5
Per capita GSDP including and excluding manufacturing sector

Year	GSDP *(with manufacturing sector)*	GSDP *(less manufacturing sector)*	Population (in lakh)	Per Capita GSDP (₹)		Percentage difference *(5-6)**100/6*
				Inclusive of manufacturing sector(*2/4*)	Without manufacturing sector(*3/4*)	
1	*2*	*3*	*4*	*5*	*6*	*7*
2011-12	11,16,510	6,85,887	6.14	1,81,842	1,11,708	63
2012-13	12,33,842	7,71,280	6.21	1,98,686	1,24,200	60
2013-14	13,86,190	8,59,334	6.27	2,21,083	1,37,055	61
2014-15	15,40,672	9,54,066	6.33	2,43,392	1,50,721	61
2015-16	18,03,394	10,99,543	6.40	2,81,780	1,71,804	64
2016-17	20,02,046	12,25,396	6.47	3,09,435	1,89,397	63
2017-18	22,24,791	13,67,813	6.53	3,40,703	2,09,466	63

Source: Directorate of Economic Statistics, Monitoring & Evaluation.

Although, manufacturing sector enhanced the PCG of the State by 60 to 64 *per cent*, its actual contribution in real terms to either the State's revenue or the income of the people of the State remained vague and notional as the revenues from these industries went to the manufacturing companies which were based outside the State. Thus, the high PCG of the State gave only a theoretical picture of prosperity of the State.

1.3.8.1 Corporate Social Responsibility

The Ministry of Corporate Affairs, GoI notified Section 135 and Schedule VII of the Companies Act, 2013 as well as provisions of the Companies (Corporate, Social Responsibility Policy) Rules, 2014 which came into effect from 01 April 2014. Accordingly, every company, private or public limited, which either has a net worth of ₹ 500 crore or a turnover of ₹ 1,000 crore or net profit of ₹ five crore, needed to spend at least two *per cent* of its average net profit for the immediately preceding three financial years on CSR activities.

CSR activities included eradicating hunger, poverty and malnutrition, promoting preventive healthcare, education, gender equality, setting up homes for women, orphans and the senior citizens, *etc.* while giving preference to the local areas around it for spending the amount earmarked for CSR activities.

The State Government, accordingly, issued (May 2015) notification to streamline contribution towards CSR activities by the industrial units which stipulated all industrial units including hydropower projects to submit every year before 30th September details of net profit earned by the industrial units in the preceding three years, funds earmarked for CSR activities and works/activities undertaken/proposed to undertaken under CSR in the year. All the industrial units were required to submit Annual Report on CSR Activities by 10 April every year. Any agency/organisation/ Department, that wished to avail benefits under the CSR was required to submit to the C&ID their requirement by 30 September every year. The C&ID would monitor, supervise, review and evaluate the CSR activities, allocate CSR funds available for the year as declared by the industrial units to works/ activities based on demands received and priority, need, urgency, extent of benefit to the public, *etc.* with the approval of the Government.

Audit, however, observed as under:

(i) there was no record of the industrial units ever submitted the annual reports on CSR activities to the C&ID;

(ii) there was also no record of the C&ID having monitored or supervised the CSR activities carried out by any of the units; and

(iii) the C&ID had also not assigned specific responsibilities to any officer/official for overseeing/supervising or reviewing the CSR activities undertaken in the State.

After being pointed out (February/May 2018), the Principal Secretary brought out (May 2018) an office order assigning responsibilities on matters relating to the CSR activities to two officers (a Deputy Secretary and an Under Secretary). However, till January 2019, neither the amount to be earmarked towards CSR activities by the industrial units had been worked out nor were the details of CSR activities undertaken by the units within the State available with the C&ID.

Thus, the C&ID did not have any data relating to the size of annual turnover, net worth or net profit of any company in the State. Audit analysis of data on annual turnover and net profit obtained from 58 industrial units through C&ID revealed that there were 15 industrial units in Sikkim with net profit above ₹ five crore per year during 2014-18, which were liable to contribute towards CSR activities. The total amount to be earmarked for CSR activities and amount actually spent in the State during 2014-18 by these 15 units are depicted in the table below:

Table 1.3.6

Details of contribution towards CSR activities

(₹ in crore)

Sl. No.	Year	Amount to be earmarked	Amount actually spent	Shortfall
1	2014-15	15.92	1.27	14.65
2	2015-16	19.69	0.96	18.73
3	2016-17	79.99	10.76	69.23
4	2017-18	95.97	22.07	73.90
TOTAL		**211.57**	**35.06**	**176.51**

Source: Data obtained from the industrial units through the C&ID.

While the total amount to be spent on CSR activities by the 15 companies was to the tune of ₹ 211.57 crore (detailed in **Appendix 1.3**), the companies claimed to have spent only

₹ 35.06 crore on purchase of ambulances, organising health camps, assistance to Government schools (boundary fencing, providing computers, water filters, *etc.*) and contribution to local festivals as part of their contribution towards CSR activities. Thus, the C&ID failed to persuade the eligible industrial units to earmark funds as per the Act, towards CSR activities and to ensure that these funds were utilised to bridge the gaps in the existing social infrastructure to optimise the benefits for the local populace.

The C&ID stated (November 2018) that details of CSR activities were being collected and meetings were being conducted with the industrial units to impress upon them the need to meet their legal obligations such as CSR.

Recommendation (5):

The C&ID may take immediate steps to (i) ensure compliance with the provisions contained in the Companies Act, 2013 relating to CSR activities by the industrial units; and (ii) ensure that optimal benefits accrue to the State.

1.3.8.2 Short realisation of Industrial Development Fund

The State Government notified (June 2010) a model MOU to be executed by the investors before making investment in Sikkim in terms of which all investors who proposed to set up industrial units (IUs) in Sikkim with investment of more than ₹ five crore in plant and machinery were required to contribute ₹ five lakh per annum as Industrial Development Fund (IDF). The MOU was slightly modified in May 2015 whereby, all IUs should contribute to the IDF from the date of signing MOU irrespective of the date of establishment of such IUs,

The IDF could be utilised for acquisition/development of land for industrial purposes, maintenance of infrastructure at the existing growth centres, promotional activities for investment and industrial development and any other related activities as approved by the Government.

There were 48 industrial units in the State with investment above ₹ five crore in plant and machinery (ranging between ₹ six crore and ₹ 200 crore) which were liable to pay the IDF. Out of the 48 industrial units, only eight IUs had paid ₹ 1.10 crore to the State between 2012-13 and 2017-18. As of July 2018, the total IDF due from the industrial units, calculated from the year of Notification (2010-11)/year of signing MOU was ₹ 11.10 crore.

Audit noticed that on a proposal for realisation of IDF from the defaulting units in April 2017, the Principal Secretary suggested (June 2017) that a meeting was to be held with the defaulting units for resolving the issue. However, follow up action on the decision and subsequent meeting with the units, if any, were not available in the records.

Audit also noticed systemic flaws in administration of the IDF relating to determination of rate, collection, custody, penalty provision and utilisation of the IDF. Audit is of the opinion that the fixation of contribution towards IDF @ ₹ five lakh per unit was lopsided and favoured the big corporates at the cost of smaller units. It is therefore, recommended that the contribution towards IDF should be fixed at a percentage of the turnover to give a fair treatment to large as well as small enterprises.

Further, no officer in the C&ID had been delegated with specific duty of overseeing collection, custody and utilisation of the IDF and no penalty prescribed for non-payment. The IDF collected was being credited into the Consolidated Fund of the State. Audit noticed that there was no mechanism in place to allot these funds to the C&ID for utilising the same for the purpose for which IDF was conceived.

Although, the notification for MOU covered hydropower projects also, there was no data with the C&ID about the size of investment in plants and machinery in hydropower projects installed by private investors and the corresponding amount of IDF to be collected.

The shortcomings relating to administration of the IDF were indicative of lack of earnestness on the part of the C&ID in implementation of the IDF. Only after being pointed out in Audit (May 2018), the C&ID issued an office order (May 2018) assigning responsibility of dealing with matters relating to the IDF to an Under Secretary and a Deputy Secretary.

The C&ID replied (November 2018) that it had initiated action on payment of IDF from the remaining units and was likely to realise the amounts due during 2018-19. The C&ID had written a letter to the Energy and Power Department and the Sikkim Power Development Corporation about the liability of the hydropower companies to pay the IDF. The C&ID further added that the audit suggestion on penalty for non-payment of IDF and proportionate rate of IDF instead of a blanket amount was also being processed for Government approval. The C&ID will also be approaching the Finance Department for permission to utilise the IDF for the intended objectives of promotion of industrial growth and development by creating an appropriate mechanism for the accounting and utilisation of the fund.

Recommendation (6):

- *The C&ID may (i) explore the possibility of creating a dedicated fund, similar to the State Disaster Relief Fund, etc. in the Government Accounts to ensure intended use of IDF and (ii) fix the contribution to IDF as a percentage of turnover to give a fair treatment to big as well as small enterprises.*

1.3.8.3 Employment to local people

Unemployment is a serious issue in Sikkim with unemployment rate of 181 persons per 1000 persons during 2015-16 as per the employment-unemployment survey[17] conducted by the Ministry of Labour, GoI in 2015-16. Yet, there was no plan in the C&ID for human resource development through appropriate skill/ entrepreneurship development programmes to optimize the level of employability of the people in the newly established industrial units. The MOU notified (July 2010) by the State Government to be signed between the State and the industrial units envisaged that the investor should give priority for employment to local people and all posts should be given to *bona fide* local residents. It also envisaged that the Department concerned should organise necessary trainings for which expenditure should be borne by industrial units which should then employ the skilled manpower. The appointment of non-locals should be made only till such time as needed

[17] *The All India unemployment rate was much lower at around 50 during 2013-14 and 2015-16.*

for the training to be completed and qualified *bona fide* local residents are trained and absorbed.

Audit noticed that despite the above provisions in the MOU, out of 6,401 employees in 29 industrial units from which manpower data was made available to Audit, only 2,748 (43 *per cent*) employees were locals of Sikkim while 3,653 employees (57 *per cent*) were non-local as depicted in the table below:

Table 1.3.7
Employment of locals vis-à-vis non-locals in the State's manufacturing industries

No. of Units	Total Employees			Local Employees		Non-local employees	
	Local	Non-local	Total	Skilled	Unskilled	Skilled	Unskilled
29	2,748	3,653	6,401	610	2,138	1,958	1,695

Source: Information obtained from the industries through the C&ID

Thus, the prospect of the State benefiting from industrialisation by ensuring maximum employment to local persons in the industries remained largely unachieved as more than half of the employees (57 *per cent*) in the industries were non-locals. In the unskilled category, non-local employees comprised 44 *per cent* while in the skilled category, the local employees constituted 24 *per cent.* As the State had never assessed the status of employment of its people in the industries, the reason for (i) high percentage of non-locals even in the unskilled category as well as (ii) very low percentage of locals in the skilled category could not be ascertained in audit.

The Government/C&ID had not instituted any mechanism to implement and ensure employment of locals in the industrial units beyond laying down the condition in the MOU. It had neither carried out any need assessment of skill in the industrial units in consultation with the latter nor had it arranged capacity building measures either with its own resources or through the industrial units to make the locals employable. Till date, the C&ID did not even have consolidated data of local employees in the industrial units even though employment formed a key objective of the State Industrial Policy.

The C&ID stated (November 2018) that it has initiated action by holding meeting with the plant heads of the industrial units in coordination with the Labour Department to discuss issues on local employment. Subsequent to the Audit observation, the Government issued (August 2018) notification through the Labour Department for employment of local persons to the extent of 90 *per cent* in any establishment. A committee was also constituted (October 2018) with the plant heads of five large pharma companies in coordination with the Labour Department to develop further plans for capacity building through the Institute of Chartered Financial Analysts of India (ICFAI) University to skill the State's youth for employability in the State's industries.

Recommendation (7):

- *The C&ID/Government may ensure effective implementation of the employment related provisions of the MOU.*

1.3.9 Development of Growth Centre and Industrial Areas

The C&ID had a total of 76.58 acres of Government land located at different places in the State which were earmarked for development of industries as detailed below:

Table 1.3.8
Land owned by Department for development of industries

Sl. No.	Location of Government Industrial Area	Size (acre)
1	Tadong Industrial Area, 5th Mile, Tadong, East Sikkim	13.65
2	Rohtak, West Sikkim	1.40
3	Samardung, South Sikkim	2.00
4	Rangpo, Mining, East Sikkim	17.53
5	Growth Centre, Marchak, East Sikkim	42.00
	TOTAL	**76.58**

Source: Departmental figure

Development of industries at the Growth Centre, Marchak (East Sikkim) and industrial areas at Samardung (South Sikkim) and Rangpo, Mining (East Sikkim) were sampled in audit for detailed examination. Audit findings are elaborated below:

(i) Development of Growth Centre

The Scheme towards development of Growth Centre (GC) for industrial development was announced by GoI in June 1988 and came into operation in 1991. Under the scheme, GCs were to be set up to attract industries to the backward areas by creating infrastructural facilities at par with the best available facilities in the country, particularly in respect of power, water, telecommunication and networking. Central assistance up to ₹ 15 crore was available under the Scheme for NE States for setting up each GC.

Audit noticed the following deficiencies in the development of GC:

➢ ***Absence of survey/investigation***

The C&ID prepared (December 2002) DPR through a Consultant[18] for setting up a GC at Marchak, East Sikkim and Salghari, South Sikkim over an area of six lakh sq. mtr (148.26 acre). As per the DPR, 54 *per cent* of the area was to be used for industrial units, 23 *per cent* for housing, one *per cent* for trade and commerce, 17 *per cent* for roads and five *per cent* for open spaces.

Audit noticed that no survey/ investigation had been conducted by the C&ID to ascertain availability of land of size 148.26 acre for establishing the GC, before formulating DPR. Although 148.26 acre area was originally targeted in the DPR for GC, only 86.10 acre area was included in the detailed estimate for the project. Even the reduced area of 86.10 acre was further whittled down to 42 acres only, the project being finally proposed to be developed in only one location (Marchak, East Sikkim). The reduction in size of the GC at a later stage was due to non-availability of adequate suitable land for the project and rejection of the second site at Salghari, South Sikkim by the C&ID due to high cost of laying power line and water supply system in the location.

[18] *Chief Consultant of Gujarat Growth Centre Development Centre.*

➢ ***Diversion of land for establishing Central Agricultural University***

Out of the 42 acre land acquired at Marchak for establishment of Industrial Growth Centre, the State transferred 17 acre land for establishment of a Central Agricultural University (CAU). Establishment of CAU did not form part of the GC scheme in terms of the DPR approved by the GoI for the project. Diversion of 17 acre land from the GC for establishment of CAU was unauthorised and irregular as it did not conform to the objective of setting up of the GC as envisaged in the DPR approved by the GoI. On being asked further about modalities of transfer, justification and terms & conditions on the basis of which the land was transferred to the CAU and approval of GoI, the Department failed to produce the relevant file and it was stated during Exit Conference (November 2018) that efforts would be made to furnish the file.

➢ ***Acquired land not utilised***

Even after more than 14 years (as on March 2018) of acquisition of land for the GC at Marchak, 15.14 acre land (36 *per cent*) acquired at a cost of ₹ 2.67 crore within the GC was not put to use for its intended purpose with no recorded reason for the land remaining unused.

Audit noticed that while justifying the purchase of land for the GC at Marchak during the inception stage of the project, the Secretary of the Department had impressed upon (January 2003) the GoI that the land at Marchak was a prime land located in a valley consisting of paddy fields on both sides of National Highway and was highly suitable for development of an industrial growth centre. Audit observed that major portion of the acquired land was neither allotted nor any initiatives taken in this regard. Moreover, Audit did not find any effort on the part of the Government to develop the GC including organising meetings with entrepreneurs and investors, advertising about the availability of land for establishment of industrial units and facilities at GC in print and electronic media, *etc.* as discussed in the succeeding paragraph.

On being asked by Audit, the C&ID replied (November 2018) that due to the State's topography, it was not possible to get flat land in the State and the land acquired consisted of mixture of suitable and unsuitable portions. The land remaining idle in the GC was located in the fringes of the GC near the river bank. The C&ID planned to conduct proper survey of the area in association with the Land Revenue and Disaster Management Department (LRDMD) and thereafter, demarcate the vacant lands and divide such lands into plots and auction the same for the use of prospective investors.

The reply furnished by the Department was misleading as it was a ploy to hide their inefficiency in view of the assurance given to the GoI regarding the prime nature and suitability of the land at the time of sourcing funds for the project. Moreover, the bifurcation of the acquired land into suitable and unsuitable portions was factually incorrect as Central Agriculture University has been constructed on the land allotted, as discussed in the preceding sub-paragraph, and has been made functional as well.

Thus, due to lack of due rigour by the Department, the intended objective of GC remained unachieved even after more than two decades of its acquisition.

Recommendation (8):

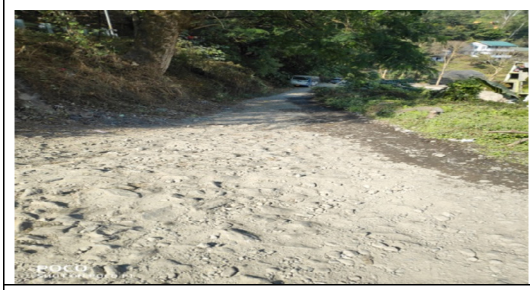
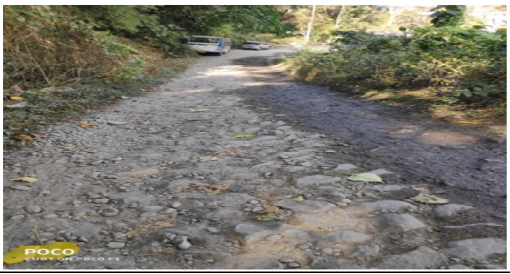
- *C&ID may initiate immediate action to (i) fix responsibility for the purchase of unsuitable land (ii) conduct survey to identify all vacant plots in the GC within a time frame (iii) initiate suitable action to allot vacant plots to prospective entrepreneurs in a fair manner and, (iv) ensure proper survey, investigation and feasibility study in all cases of future acquisition of land.*

➢ ***Stoppage of funding and stalling of project***

The GoI approved (November 2003) the proposal of the C&ID for setting up the GC at Marchak, East Sikkim at a cost of ₹ 31.76 crore[19] for which central assistance was ₹ 15 crore and balance ₹ 16.76 crore was to be provided by the State. In terms of GoI directives, the State Government was required to make the GC functional by March 2009. A total of ₹ 16.66 crore had been released for the project *(GoI Share[20]; ₹ 8 crore[21] and State ₹ 8.66 crore[22])* up to March 2010. Thereafter, no fund was released for the project either by the State or the Centre, thereby, stalling the project mid-way.

An earlier audit para *(Para 2.1 of the Audit Report on Government of Sikkim for 2009-10)* had brought out the issue of delay in completing the GC and failure of the C&ID in securing funds in time and completing the project. In its response to the Public Accounts Committee (PAC), the C&ID had submitted (March 2016) that despite fund constraints, the C&ID had managed to make the GC functional with all basic facilities (roads, water supply, power supply and fencing), plots had been allotted to seven units in the GC and the C&ID was collecting revenue of ₹ 10 lakh *per annum*. Further, with the establishment of the GC, many investors had come into the State and established their units providing employment and entrepreneurship opportunities to the people of Sikkim. The PAC had expressed satisfaction over the reply of the C&ID and had decided not to pursue the matter further.

However, Audit noticed during joint physical inspection (December 2018) of the GC with the Departmental authorities that the state of the GC was far from satisfactory. The approach road and the internal roads in the GC were in very poor condition with worn out surface and boulders jutting out at places as corroborated by the photographs below:

Image 1.3.4	**Image 1.3.5**
	
Damaged internal/approach road	

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[19] *Land and site Development: ₹8.57 crore; Industrial infrastructure:₹20.19 crore and contingencies: 3 crore.*

[20] *Through North Eastern Development Finance Corporation Limited (NEDFi), Guwahati.*

[21] *January 2004: ₹5 crore; December 2005: ₹1 crore and ₹2 crore during August 2008.*

[22] *2005-06:₹3.27 crore; 2006-07:₹1 crore; 2007-08: ₹0.64 crore and 2009-10:₹0.80 crore.*

There was no evidence of any water supply system within the complex. The plots allocated to different units had not been demarcated with clear boundaries and there were vacant spaces within the complex whose status was not known. Photographs below depict the vacant spaces within the GC and the absence of clear boundaries to demarcate the plots.

Image 1.3.6

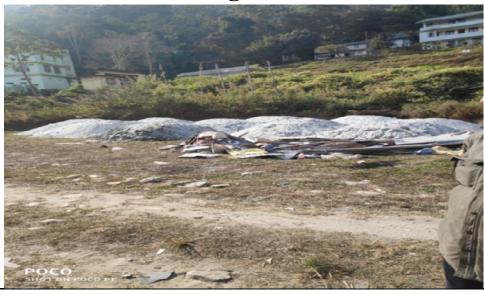
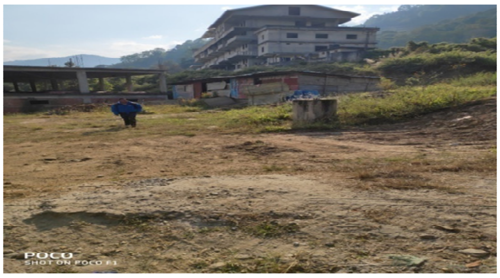


Image 1.3.7



Vacant and un-demarcated spaces within the Growth centre

Out of the seven units[23] to whom plots were allocated in the GC, four units[24] were functional, two units[25] which had built buildings and installed some machinery were non-functional while one unit[26] was at the construction stage. There was no evidence in the C&ID to indicate that the C&ID had made any efforts to help the struggling units to make them functional. The present status of the GC as revealed in the joint physical inspection was thus indicative of the C&ID's neglect of the operation, upkeep and monitoring of the activities in the GC and hence its failure to ensure the benefits for which the GC project was originally conceived and executed. Hence, reply of the C&ID to the PAC was misleading and gave an incorrect impression about the status of the GC.

Recommendation (9):

- *The C&ID may initiate immediate steps to assess the status of the GC, revive it and make it fully functional in a time bound manner.*

➢ ***Non-submission of Utilisation Certificates (UC) to GoI***

The C&ID created the following infrastructure in the proposed GC at Marchak:

Table 1.3.9
Infrastructure created in the Growth Centre at Marchak

Sl No	Item of expenditure	Amount (₹in crore)
1	Construction of Road	2.02
2	Water Supply	3.17
3	Power Supply	1.35
4	Boundary fencing etc.	1.09
	TOTAL	**7.63**

Source: Departmental figure

As on date the total expenditure incurred on the project was ₹ 15.31 crore[27] leaving a balance of ₹ 1.35 crore, out of the last instalment of ₹ 2 crore released by the GoI in August

[23] *Out of the available 25 acre land at the GC, 9.86 acre land to seven agencies on lease basis for 33 years.*
[24] *M/s Glenmark (Pharma), M/s Greenways (Packaging materials), M/s Marchak Manufacturing (Packaging materials), M/s Explore Sikkim (Packaging materials).*
[25] *M/s Amber Enterprises and M/s Suraj & Company (both non-functional).*
[26] *M/s Kanishka Enterprises (under construction).*
[27] *₹7.68 crore on purchase of land (25 acre of land for ₹4.41 crore from GoI share and 17 acre of land for ₹3.27 crore from State share) and ₹7.63 crore on creation of roads, water supply etc.*

2008. The C&ID had not sent utilisation certificate (UC) for the last instalment of ₹ two crore released by the GoI, despite repeated reminders (August-2004 and 2006). Finally, the GoI instructed the State (May 2015, June 2016 and 2017) to refund the unspent amount. No steps had been taken by the C&ID to address the GoI as of March 2018.

The C&ID replied (November 2018) that it would send UC for the balance amount of ₹ two crore to GoI after obtaining details from the Roads & Bridges Department (RBD). Audit, however, observed that the RBD had already submitted the UC for ₹ two crore to the C&ID in February 2008. However, the UC submitted by the RBD did not pertain to the last instalment of ₹ 2 crore released by the GoI in August 2008 for which the UC was still due. This indicated absence of control mechanism in the C&ID relating to UC submission.

Recommendation (10):

- *The C&ID may initiate immediate steps to revisit all transactions relating to the GC, identify the status of utilisation of the last instalment released by the GoI, expedite the pending UC and settle the matter within a targeted date.*

➢ ***Absence of fair and transparent system for allotment of land in the GC***

The C&ID had allotted[28] (as of March 2018) 9.86 acre land (39 *per cent*) to seven agencies on lease basis for 33 years out of the available 25 acre land at the GC. However, the availability of land and associated facilities for establishment of industries in the GC was never made public through either print or electronic media. Rather, land was allotted to the seven agencies on the basis of applications directly submitted by them to the Chief Minister. The total number of actual applicants requesting plots in the GC could not be ascertained in audit due to absence of system in the C&ID to record and capture details of all the applications received.

The C&ID had thus not put in place any fair system and methodology for allotment of land to entrepreneurs within the GC. Audit also observed that there was no scale of allotment of land in the GC. Land plots ranging between 5,393 sqft to 2,70,507 sqft were allocated to different agencies without any modality and justification to determine the size of land required by the agencies to set up their units.

The C&ID, while accepting the Audit observation, replied (November 2018) that it had been allotting land to industries based on perception of viability and first come first serve basis and would henceforth set up a system of allotment of land in future GCs/Industrial estates after an appropriate Authority has notified for administering such matters.

➢ ***Recurring loss due to fixation of low allotment rate - ₹2.87 crore per annum***

The rate of allotment of plots for industrial units in the GC was determined at ₹ 70.26 per sq ft[29] in terms of the rates incorporated in the DPR prepared by the C&ID. However, during the course of allotment of plots in the GC, the C&ID applied (June 2011 onwards) the allotment rate of ₹ 3.40 per sq ft[30], which was far less than the proposed allotment rate

[28] *Between April 2007 and October 2013.*
[29] *₹756 per Sq. mtr.*
[30] *₹1.40 per sq ft before June 2011.*

with no recorded justification for the same. Fixing of the allotment rate way below the proposed rate resulted in loss of revenue to the tune of ₹ 2.87 crore[31] *per annum* to the State exchequer. The C&ID stated (December 2018) that it was uncertain about the reasons for the huge difference in the rate of allotment of plots incorporated in the DPR (₹70.26 per sq. ft per year) and the actual rate at which plots were allocated later (₹3.40/sq ft/year) due to the huge time lag, since the event took place more than a decade ago. It was bound by the Government notification of June 2011 to allot plots in the GC at ₹ 3.40 per sq ft per year. The reply was not acceptable as the C&ID had notified the low rate of allotment of plots in the GC completely ignoring the proposed rate mentioned in the DPR submitted to the GoI.

Recommendation (11):

- *The C&ID may review the entire process of fixation of rate of plots at the GC and fix responsibility for allowing a very nominal allotment rate as compared to the rate incorporated in the DPR and approved by the GoI.*

➢ ***Failure to utilise revenues from GC for development and upkeep of infrastructure***

In terms of the GoI stipulation for establishment of GC, the revenue from the GC was to be utilised for development and upkeep of industrial infrastructure at the GC. Audit noticed that while revenue collected from lease rent from the GC at Marchak was being credited into the general revenue of the State, no plan or modality had been worked out by the C&ID towards creation of appropriate budget head and expenditure of commensurate amount for fulfilling the intended objective. During the period 2005-18, the C&ID collected revenue to the tune of ₹ 53.18 lakh from the GC which had been credited into the State's revenue.

The C&ID stated (November 2018) that it would move a proposal to the Government to utilise the lease rent realised from the GC for the intended purpose after constituting an appropriate Authority (such as Industrial Development Authority).

Recommendation (12):

- *The C&ID may expedite the process for enabling it to use the lease rent realised for the maintenance and upkeep of the GC.*

➢ ***Encroachment of Land***

One agency (M/s Explore Sikkim), which had been allotted (October 2008) 26,850 square feet land had actually occupied 37,550 sqft area, thereby, irregularly occupying 10,700 sqft in excess of its allotted share. This was due to the fact that the C&ID had no system of clearly demarcating areas allocated to different agencies within the GC and no mechanism to keep proper vigil over the activities in the GC. Neither had any action been taken by the C&ID to reclaim excess land occupied by the errant agency, nor was any penalty prescribed in the lease deed/ agreement for occupying area beyond the allotted share.

The C&ID stated (November 2018) that the agency informed (April 2016) that it had actually occupied 37,550 sqft land against 26,850 sqft allocated to it after survey through a private surveyor. The C&ID was proposing to conduct a proper survey in coordination with

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[31] *Total allotment area:4,29,483 sq ft x ₹66.86 (₹70.26-₹3.40)= ₹2,87,15,233*

the LRDMD to confirm the fact. The reply of the C&ID corroborated the audit observation that the C&ID had no system of clear demarcation of areas allocated to different agencies within the GC and no system of keeping vigil over the happenings within the GC to prevent encroachment of land by any agency.

Recommendation (13):

- *The C&ID may initiate immediate action to conduct a detailed survey of the entire GC area, measure and demarcate individual allocated sites with clear boundary markers and remove all unauthorised encroachments.*

(ii) Industrial Area, Sikkim Mining Corporation (SMC) Complex, Rangpo, Mining

➢ ***Unplanned and irregular allocation of lands at the SMC Complex, Mining***

The erstwhile Sikkim Mining Corporation (SMC) located at Rangpo, Mining, East Sikkim was wound up by the State Government in January 2007. The SMC complex occupied an area of 17.53 acre developed prime land. While the process of closure of the SMC was still underway, the State Government commenced allocating lands in the SMC complex to private investors for developing industries and by August 2009, the entire land (17.53 acre) was allocated to three agencies based on applications received from them, without working out any criteria, modality or norms of allocation. As per their records, M/s C.G. Foods Pvt. Ltd used the premises for manufacturing noodles (Wai Wai), M/s Sign Sikkim, spices and M/s Shangrila, pharmaceutical formulations.

During similar period when lands were being allotted in the industrial estate at Mining, the C&ID had applied (2004-2011) the lease rent at the rate of ₹ 60,984[32] per year for allotment of land on lease basis for 30 years at Government industrial complexes (GC at Marchak) in the State. Compared to the location and other features of the GC at Marchak, the Industrial area at Mining was more favourably placed, being flat land located close to the border (Rangpo) and connected to the National Highway.

The dates of allocation of lands to the three agencies, areas of lands allocated, period of lease, lease rent applied and the actual lease rent applicable in terms of the lease rent applied at the GC at Marchak is detailed in the table below:

Table 1.3.10
Details of land allocated to industrial units at Mining

Name of Agency	Date of allotment	Size of land allotted (acre)	Total lease period for which land allotted	Details of lease rent per acre per year (in ₹)		Difference of Rate per acre (₹)	Loss per year(₹)	Loss to State during the entire lease duration of 30/90/99 years (₹)
				Actually applied	Applicable in terms of C&ID norms			
a	b	c	d	e	f	g=f-e	h=c*g	i=d*h
M/s C.G. Foods Pvt. Ltd	04.10.2004	6.61	90	19,803	60984	41,181	2,72,206	2,44,98,540
M/s Sign Sikkim	11.10.2004	1.00	30	10,000	60984	50,984	50,984	15,26,820
M/s Shangrila Industries	18.08.2009	9.92	99	7,071	60984	53,913	5,33,739	5,28,40,131
						TOTAL	**8,56,929**	**7,88,65,491**

Source: C&ID

[32] *1 acre = 43,560 sq ft. ₹1.40 per sq ft = ₹1.40 x 43,560 per acre = ₹60,984 per acre.*

Audit observed that the C&ID/Government commenced allocating land in the SMC complex without preparing any plan or strategy for systematic development of the land into an industrial area with proper road map delineating the number of industrial units to be accommodated in the area, size of plots to be allotted to each type of industry, publicity of availability of lands for industrial purposes and the modality to be followed for allotment of sites. While M/s C.G. Foods Private Limited was allotted land for 30 years lease period with unconditional renewal for another two terms of 30 years each making the actual lease duration 90 years, M/s Shangrila was allotted land for a lease period of 99 years in stark violation of the C&ID's own allotment norms.

Thus, the unplanned allocation of Government land without publicity about availability of such land for industrial purposes, non-invitation of open applications from potential investors and the allotment of different sizes of lands to a few agencies at different lease rates much lower than the applicable rates for varying time periods revealed the irregular, arbitrary and random action of the C&ID/Government in making public land allotments which caused a loss of ₹ 7.89 crore during the entire lease duration of 30/ 90/ 99 years (₹ 8.57 lakh per year).

The C&ID replied (November 2018) that the issues pointed out in audit were factual statements which pertained to a period nine to 14 years back and hence it had no submission to make. The C&ID was pursuing action to constitute an authority under appropriate rules to obviate the discrepancies in future allocations of land.

Recommendation (14):

- *The C&ID may initiate urgent action to examine the cases of land allotments done so far, take action to revert back lands occupied in excess of requirement and lay down fair and transparent mechanism for allotment of Government lands in future.*

➢ ***Undue favour due to allotment of large tracts of land without need analysis***

Audit observed that the C&ID had not carried out any assessment of the size of land essential for running the operations of the two agencies M/s C.G. Foods and M/s Shangrila, which were allotted huge lands measuring 6.61 acre and 9.92 acre respectively. Large companies like the Alkem *(in terms of turnover and manpower size)* had arranged lands on their own from private land owners and established their production units in lands of much smaller sizes up to 5.23 acre, as detailed below:

Table 1.3.11

Land acquisition by the industrial units *vis-à-vis* allotment by the Department

Name of Firm	Location	Area (acre)	Turnover (crore) (2017-18)	Manpower employed
Alkem Health Science- I	Samardung	4.28	474	669
Alkem Health Science-II	Samardung	5.23	282	1,015
Alkem Laboratories	Kumrek	5.53	1,077.75	642
Shangrila Pharma	Mining	9.92	1.49	42
C.G. Foods	Mining	6.61	NA	NA

Source: Figure furnished by the industrial units

The allotment of huge chunks of public lands to M/s C.G. Foods (6.61 acre) and M/s Shangrila (9.92 acre) which were much smaller in terms of turnover and manpower, than other units like Alkem, without examination and assessment of the size of land required for their production units and without considering their contribution to the State through generation of employment opportunities and contribution to CSR funds was unjustified and constituted undue favour to these two agencies.

Some of the lapses noticed were as follows:

- In terms of the DPR submitted by M/s Shangrila to the C&ID, its requirement of land was only for four acres. However, while applying for allocation of land, it scaled up its requirement to 9.92 acres, without any justification. Incidentally, the size of land available at the SMC complex at Mining at the time and the area M/s Shangrila applied for allocation of land was exactly 9.92 acres. This raised the probability that M/s Shangrila had inside information about the exact details of land available in the industrial area, pointing to the probability of collusion of the Departmental authorities with the private agency.
- M/s Shangrila was required to set up its unit within two years[33] of grant of consent, failing which the consent would be withdrawn. Although the agency was allotted land in August 2009, it obtained consent to establish its unit only in April 2010 and started commercial production in March 2017, seven years after the grant of consent. However, the company sought time extension of five years to set up the unit in July 2015, more than five years after grant of consent and the C&ID without due diligence granted the time extension of five years instead of withdrawing the consent to the unit for occupying public property for such long duration without any productive activity.
- Thus, the entire process of allotment of land to M/s Shangrila and grant of undue extension of time for establishing its unit smacked of undue bias in facilitating the private agency to acquire more than double the size of prime public land actually required by it at a low price and for a long lease duration of 99 years.
- Similarly, the land originally earmarked (July 2004) for allotment to M/s C.G. Foods was 1.79 acres which was later increased to 5.79 acres by addition of another four acres on the agency's plea (September 2004) for establishing production units for noodles, cheese balls, potato chips, other foods products, beverages and for future expansion. The revised area of 5.79 acre was again increased (October 2004) to 6.61 acres at a later stage and leased out for 30 years with provision for two subsequent renewals of 30 years each. The justification for this further increase of area was not recorded. As on date (November 2018), the unit was producing only noodles and not the other items for which it had sought additional allocation of land. Thus, this too was a case of extension of undue favour to the agency M/s C.G. Foods.

The C&ID replied (November 2018) that due to absence of a technical wing in the Department, it was not possible for it to take up need analysis of land required by different

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[33] *In terms of a notice issued by the C&ID (December 2010) for regulating time period for establishment of industries in the State.*

industries. The C&ID proposed to constitute an authority equipped with technical manpower to handle technical works as in the case of other States. The C&ID further stated that the Audit observation was a factual statement and it would amend the notification to provide for penalty with a view to preventing the delays in establishment of industrial units.

The reply was not acceptable as allocation of land based on the rates and lease terms notified by the Government was basically administrative functions which did not call for any technical expertise.

(iii) Industrial Area, Samardung (Industrial Infrastructure Upgradation Scheme)

GoI launched a scheme 'Industrial Infrastructure Up-gradation Scheme (IIUS)' in 2003 which was modified and re-cast for further continuation during the Eleventh five-year plan period (2007-12) and also during the Twelfth five-year Plan period (2012-17). The IIUS scheme was to be implemented by a State Implementing Agency[34] (SIA) nominated by the State Government. The SIA would prepare Detailed Feasibility Reports (DFR) covering technical, financial, institutional and implementation aspects. The scheme armed to enhance competitiveness of the industries located in the existing industrial clusters with high growth potential by providing quality infrastructure. The scheme did not permit creating industrial estates because of convenience of doing so due to availability of land or other reasons. Instead, viable site was to be selected.

In terms of the modified IIUS, in case of a Special Category State (SCS), the Central grant would be 80 *per cent* of the project cost *(*subject to a ceiling of ₹ 50 crore*)* with a minimum contribution (10 *per cent)* of the State. Projects with beneficiary industry contribution (minimum 10 *per cent)* would be given priority.

In contravention to the GoI stipulation that the IIUS was to be implemented in existing industrial cluster, the C&ID purchased a vacant plot of land measuring two acres at Samardung, South Sikkim at ₹ 91.31 lakh in October 2011. The C&ID also had neither nominated the SIA for implementing the project nor had they initiated action to prepare Detailed Feasibility Report (DFR) for it till date (November 2018). The C&ID, thus, missed the opportunity to avail GoI funding of up to ₹ 50 crore available for the project due to wrongful start of the project by purchasing vacant land instead of identifying existing industrial cluster for implementation of the scheme. While skirting the issue of delays and failure to take up the project in right earnest till date, the C&ID stated (November 2018) that it was proposing to constitute an authority equipped with technical manpower which would act as the State Implementing Agency for the project at Samardung.

Recommendation (15):

- *The C&ID may initiate immediate action to (i) nominate SIA for implementing the IIUS project (ii) prepare Detailed Feasibility Reports (DFR) covering technical, financial, institutional and implementation aspects, and (iii) commence implementation of the project within a target date.*

[34] *e.g., State Industrial Development Corporation.*

Audit Objective 3: To assess and evaluate the effectiveness of monitoring, supervision and evaluation.

1.3.10 Monitoring and Supervision

For effective monitoring of its mandated activities in the State, it was essential that the C&ID put in place a robust implementation mechanism having adequate and skilled manpower with specific delegation of duties, prescribed regular returns and reports to keep vigil over the functioning of the Department and its various wings and maintain a reliable data management system.

Audit noticed deficiencies on various aspects of monitoring and supervision activities of the C&ID as elucidated below.

- The C&ID did not have any monitoring mechanism in place with specific delegation of duties to its various officers for carrying out periodical inspections and monitoring of the industrial units.

- No regular returns and reports had been prescribed to be submitted by the subordinate offices (DICs) with a view to obtaining regular information on the functioning of the sub-ordinate offices.

- In terms of the C&ID's notification of May 2015, all industries were required to send quarterly statements showing total number of employees, status of employment (local/non-local), scale of pay and total take away salary of each employee to the C&ID and copies of appointment letters. The C&ID, however, could not furnish the quarterly statements sent by the investors indicating that there was no system in the C&ID to follow up, collect, consolidate, examine and act on the reports received from the investors.

- The various reports and returns prescribed specifically for monitoring the CSR activities in terms of the notification of May 2015 were never followed up as no officer was delegated with the specific duty of ensuring the receipt of such reports/returns. Details regarding this have been highlighted under para 1.3.8.1 above.

The C&ID stated (November 2018) that monitoring in terms of the MOU was not possible due to absence of a full-fledged Directorate under the C&ID. Work profile for the Directorate was being worked out for notification.

The reply was not tenable as the C&ID should have taken action much earlier to equip itself with adequate manpower to take up the monitoring work.

Recommendation (16):

- *The C&ID may take immediate time bound action to put in place a robust monitoring mechanism with adequate manpower having specific qualifications and job experience for regular and effective monitoring and supervision of industrial and entrepreneurial activities in the State.*

The failure of monitoring mechanism in the C&ID was a result of absence of proper human resource need analysis, capacity building and training activities and proper data management, as highlighted below.

(i) Absence of need analysis of manpower

The C&ID including its two DICs located at Gangtok and Jorethang had 83 people *(72 regular and 11 temporary)* on its roll as of 31 March 2018. The C&ID, however, had not carried out any need analysis of manpower requirement with a view to distributing jobs and responsibilities appropriately to ensure efficient functioning. The C&ID was clueless about the total strength of manpower required *vis-a-v*is the cadre-wise strength sanctioned by the Government for performing the mandated functions. The C&ID's Directorate had just one Director with no sub-ordinate directors (*Additional/Joint/Deputy/Assistant Directors)* to perform the directorial functions. Even the Director's post had been lying vacant since May 2018 rendering the entire Department devoid of any Director to handle the function of the Directorate. The C&ID was thus, unaware about the need and size of its organisational strength due to absence of well-defined posts and sanctioned strength of manpower based on job analysis and need assessment.

(ii) Absence of need analysis of training of manpower

Audit also noticed that the C&ID had not carried out any training need analysis of its manpower. During the period 2007-18, training of only seven out of 83 staff was undertaken at the Administrative and Accounts Training Institute (AATI), Gangtok, besides, one officer (Under Secretary) being sent for a five-day training course on advance leadership development training programme at Mussorie. These trainings were basically on matters of administration. No officer/staff of the C&ID had ever been sent on training on any specialised subjects related to business development, trade, commerce or industry, nor did the C&ID organise any special programme on skill development with subject experts to upgrade and hone the skill of its employees regarding handling of issues of industries and their development. There was also no system of providing in-house training by the C&ID to its manpower.

Thus, from the perspective of training and capacity building exercises undertaken so far, the C&ID appeared ill-equipped to perform its functions and fulfil its mandate of promoting trade, commerce and industry in the State.

The C&ID replied (November 2018) that the matter for strengthening the Directorate of Industries was brought before the notice of the Government and a Director had already been appointed. An authority under the C&ID to manage technical works was also being proposed to be created. Due to shortage of manpower, the C&ID was unable to depute people for technical training in required numbers. Once sufficient manpower was posted, appropriate capacity building/training would be conducted.

Recommendation (17):

- *The C&ID may carry out training need analysis in respect of the available manpower based on which a cadre-wise training calendar may be implemented.*

(iii) Management of Data

Data/records kept by a Department constitute one of its most important management tools and it was essential that basic data were kept and updated regularly for the Department to assess its progress, monitor its activities effectively, measure its achievements and ascertain the activities to be undertaken in the future. Hence, the Department needed to put in place an accurate, reliable, consistent, user friendly and simple data management and record keeping system. This would help the Department with basic information for taking decisions, monitoring progress of various activities, measuring its performance, highlighting risk areas and formulating strategies to mitigate those risks.

Audit examination, however, revealed that the C&ID did not have a complete and consolidated basic data system of the industrial units with data, such as, complete list of industries in the State, documents relating to land acquisition for establishment of industries, land area occupied by each industry, built up area, investment in land, buildings, plant and machinery, date of commercial operation, number of persons employed, annual turnover, net profit earned, size of various incentives enjoyed from different sources, amount of funds allocated under CSR, activities undertaken under CSR, status of operation of the industries at a given point of time (whether functioning/closed) *etc.*

Thus, despite its existence since 1977, the C&ID was not equipped to provide consolidated authentic information to the stake-holders/Government due to absence of a proper system of data management and record keeping in the Department.

The C&ID stated (December 2018) that it was working on developing an MIS using appropriate software applications with a view to capturing and managing the entire data relating to the industries and thereby to enable proper functioning of the regulatory and monitoring functions of the Department.

Recommendation (18):

- *The C&ID may expedite the process of development of an appropriate data management system with a view to capturing and managing the entire data relating to the industries and thereby to enable proper functioning of the regulatory and monitoring functions of the Department.*

(iv) Pollution monitoring

The GoI pre-categorised (March 2016) various types of industries into Red, Orange, Green and White categories based on their potential to cause pollution. The Red category industries were rated as the most polluting followed by Orange, Green and White *(least polluting)*. The State Pollution Control Board (SPCB) notified the GoI categorisation of industries in the State in March 2017. The SPCB, however, till date (May 2018), had not categorised each industry in the State into the various categories notified by the GoI in terms of their pollution potential. However, in terms of the GoI categorisation, it could be seen that there was only one Red category industry in the State (Lahag Spirits). All other industries were either orange (pharmaceutical formulations) or green (ancillary units for manufacturing packaging materials).

➢ In terms of the Water (Prevention and Control of Pollution) Act, 1974 and Hazardous Waste (Management and Handling) Rules, 1989 every industrial unit using water above 30,000 kilo litre per day is required to submit an Environment Statement (ES) in *Form V* providing information on raw materials used, finished items produced, water consumption, pollution discharge and hazardous and solid wastes generated along with their disposal practices.

➢ Out of 61 industrial Units to which the ES was applicable, only 22 industries had submitted the ES in the prescribed Form providing the required information during the period 2015-18.

➢ There was no provision for penalising the defaulter units by the SPCB in the Water (prevention and control of pollution) Act.

➢ The 22 units that had submitted the ES in Form V enclosed test reports of effluents etc. issued by Labs from all over the country[35] accredited to the National Accreditation Board for Testing and Calibration (NABL). The SPCB, however, did not conduct any test on its own to verify the sanctity of the reports submitted by the units. The existing lab of the SPCB did not have adequate facility/infrastructure to conduct the tests themselves despite its establishment since 1992.

➢ The SPCB collected the following fees annually from various polluting units operating in the State: (i) Consent fees for establishment and operation of the units and, (ii) Monitoring fees from hydro power projects. The collection of the fees amounted to about ₹ 1.72 crore annually. The Board had not delineated the purpose and modality for utilisation of the fund generated. The Forest Department utilised (October 2017) ₹ 1.36 crore, out of the funds, for furnishing, fitting and finishing of the Japan International Cooperation Agency funded Sikkim Bio-diversity Conservation and Forest Management Project (SBFP) taking advantage of the absence of regulation for utilisation of the fund. Thus, while the SPCB lacked basic infrastructure and facilities to conduct tests of effluents and other polluting discharges from industries, its funds were being diverted for unrelated purposes.

➢ In terms of office order dated January 2017 issued by the SPCB, the SPCB was required to conduct periodical inspection of the industries to check compliance of the norms laid down for protection of environment. Prior to issue of the office order, the SPCB did not have any reports of inspections conducted till 2016-17. During 2017-18, it conducted inspection[36] of only six industries. None of the six industries recorded satisfactory performance relating to environmental protection issues. Four industries[37] were recorded to have poor performance; one industry[38] recording very poor performance and one industry[39] moderate performance. No penalty had been prescribed for unsatisfactory performance of the industrial units and hence no action had been initiated against the performance of the units by the SPCB as of March 2018.

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[35] *Shri Krishna Analytical Service,New Delhi; Envirotech East (P) Ltd., Kolkata; SGS India (P) Ltd., Kolkata, TUV Sud South Asia (P) Ltd. Mumbai, etc.*

[36] *The parameters in terms of which the inspections were to be conducted, were, (i) valid consent to operate (ii) establishment of ETP (iii) valid authorisation for generation of hazardous waste and its management (iv) permitted products & production capacity (v) zero liquid discharge (vi) scrap management (vii) green belt development etc.*

[37] *M/s Alkem Health Science, Unit-III, M/s Alkem Laboratories Ltd., M/s Zuventus Pharma Pvt. Ltd., and M/s Indchemie Health Specialities Pvt. Ltd Unit-V*

[38] *M/s Ideal Cures (Sikkim) Pvt. Ltd.*

[39] *M/s Cipla Ltd. Unit -I*

Recommendation (19):

- *The SPCB may initiate immediate action to (i) ensure regular submission of Environmental Statement in prescribed form by all industries using water above 30,000 kilo litre per day (ii) work out penalty provisions for non-compliance (iii) establish proper lab facilities for testing of effluents (iv) use fees collected for pollution monitoring/checking activities and, (v) conduct periodical inspection of industries to ensure compliance to the various environment protection norms laid down by it.*

1.3.11 Evaluation

The C&ID had not conducted any study about the status and impact of industrialisation in the State so far. No roles had been assigned by the C&ID to any officials/officers to take up such evaluation work.

Recommendation (20):

- *The C&ID may take up immediate action to assign specific roles to its officers to take up regular evaluation and assessment of the industrial activities in the State.*

1.3.12 Exit Strategy

The establishment of industries by private developers in Sikkim was the result of the benefits made available under the NEIIPP. The incentives under NEIIPP were available for commencement of commercial production for a ten-year period from April 2007 to 31 March 2017. Thus, all incentives under NEIIPP would be available upto 31 March 2027.

The table below indicates the year-wise position of commencement of commercial production under NEIIPP since 2007-08 upto 2016-17 in respect of 55 industries for which data could be sourced from the C&ID.

Table 1.3.12
Year-wise status of commencement of commercial production vis-a-vis availability of incentives

Year	No. of units which commenced commercial production during the year under NEIIPP	Year of conclusion of incentives under NEIIPP
2007-08	2	2017-18
2008-09	3	2018-19
2009-10	3	2019-20
2010-11	2	2020-21
2011-12	3	2021-22
2012-13	4	2022-23
2013-14	1	2023-24
2014-15	2	2024-25
2015-16	3	2025-26
2016-17	32	2026-27
TOTAL	**55**	

Source: C&ID/Information obtained from the industrial units through the C&ID.

Audit noticed that 32 out of 55 units for which data was made available, had commenced commercial production during the penultimate year 2016-17 of NEIIPP 2007 in order to avail benefits for a ten year period upto 2026-27. Audit also observed that the original industrial units opened up new units on completion of the ten year incentive period in order to maximise the advantage under NEIIPP. Data available in respect of seven such units is given below:

Table 1.3.13

Statement of opening of new units by existing units for availing benefits under NEIIP

Sl. No.	Main unit (First Unit)	Date of commercial Production	Date of closure of subsidy	Subsequent units	Date of commercial Production	Period of subsidy
1	Alkem Laboratories	08.08.2007	07.08.2017	Alkem Health Science – I,	18.10.2012	17.10.2022
				Alkem Health Science – II,	09.03.2017	08.03.2027
				Alkem Health Science – III,	09.03.2017	08.03.2027
2	Zydus Wellness (P) Ltd - I	06.04.2011	05.04.2021	Zydus Wellness Pvt Ltd - II	20.03.2017	19.03.2027
3	Zydus Health Care-I	27.09.2007	26.09.2017	Zydus Health Care-II	Not available	Not available
4	Cipla Pharma (P) Ltd - I	03.04.2008	02.042018	Cipla Pharma (P) Ltd - II	06.03.2017	05.03.2027
5	Sun Pharma Drugs (P) Ltd - I	20-04.2009	19.04.2019	Sun Pharma Labs - II	14.04.2014	13.04.2024
6	IPCA Laboratories-I	01.07.2011	30.06.2021	IPCA Laboratories - II	04.03.2017	03.03.2027
7	Swiss Garnier Genexia-I	14.06.2013	13.06.2023	Swiss Garnier Genexia-II	23.03.2017	22.03.2027

Source: C&ID/Information obtained from the industrial units through the C&ID.

Thus while the industrial units prepared themselves to maximise the advantage of the period of incentives under NEEIIPP by opening up new units on completion of the first round of ten year period, the State had not prepared any exit strategy to handle the situation that could arise after stoppage of incentives under NEIIPP.

From 1 April 2017, after closure of NEIIPP 2007, the GoI introduced a new scheme with the objective of further catalysing industrial development in North Eastern Region including Sikkim. This new scheme, called 'North East Industrial Development Scheme' (NEIDS) was extended for a period of five years upto 31 March 2022. The NEIDS provided capital investment incentive for access to credit, central interest incentive, central comprehensive insurance incentive, GST re-imbursement, IT re-imbursement and Transport incentive at different rates.

Thus the GoI was gradually tapering off availability of incentives for industrial growth in the Northeast. Under NEIIP, incentives were available for a ten-year period for commercial production upto 31 March 2017. From April 2017 onwards (under NEIDS) the periodicity of incentives was reduced to five years, extending upto March 2022. Since the industries were attracted to Sikkim due to benefits available under the central schemes, there is every possibility that such industries might close operations in Sikkim and shift their bases to locations better suited for them after termination of the incentive schemes of the GoI, as they have done in other SCS states like Uttarakhand after withdrawal of the incentives. It was therefore imperative that the C&ID worked out appropriate strategy to handle the likely situation arising out of retrenchment of the staff employed by such industries after they exit the State and the huge built up infrastructure and dependent businesses they leave behind.

The C&ID stated (December 2018) that it will endeavour to incorporate Exit Strategy in the new State industrial policy which will be most likely framed after the completion of the General Election 2019. The C&ID will also look into the existence of any clause in the industrial policies of other States regarding the lock in period or the strategy to be adopted to secure the interest of the State before a unit closes down or leaves the State. The C&ID, however, opined that after having invested huge capital in buildings, plant and machinery in the State, the industries were unlikely to entirely close down their operations even after the closure of the incentives. Besides, it also expected introduction of some other stimulus by Government to ensure continuity of operation of the industries.

Recommendation (21):

- *The C&ID may initiate preparation of an Exit Strategy after proper study of the situation prevailing in other States of the country with a view to ensure continuity of the industrial activities in the State even after the termination of the incentive period and may prescribe a minimum lock in period for continuity of operation of the units.*

1.3.13 Conclusion

Despite notification of the State Industrial Policy, 1996 more than two decades ago, the C&ID lagged in the implementation of the policy objectives as there was no specific plan in the C&ID for developing, creating or maintaining basic infrastructure for promoting industrial growth in co-ordination with the concerned line departments. The C&ID also had not defined 'Green State' image and had not prescribed any norm for maintaining a specific area within each industry as green area. The State had a long way to go in ensuring employment to its people in the industries as only 43 per cent local people were found employed in the industries, that too, mostly in the unskilled category.

The benefits derived by the State from the growth of manufacturing sector remained unclear. The huge growth of manufacturing industries post NEIIPP, 2007 inflated the per capita GSDP of the State by 60 to 64 per cent but failed to contribute to either the State's revenue or the income of the local people as the revenues from the industries went to the manufacturing companies based outside the State.

The C&ID also failed to ensure contribution towards CSR activities by the industrial units and to realise the industrial development fund which could have been used for creation/ maintenance of industrial infrastructure. There was short contribution on CSR activities of ₹176.51 crore by 15 units and short realisation of industrial development fund of ₹10 crore from 40 units.

The benefit envisaged from Development of an industrial Growth Centre at Marchak, East Sikkim could not be realised as implementation of the scheme was characterised by non-transparent allotment of land without fixing standard norms and procedures, excess expenditure on purchase of unsuitable land (₹2.67 crore), recurring loss of ₹2.87 crore per annum due to low allotment rate etc.

The C&ID also was ineffective in monitoring the operations of the industrial units as it failed to follow up with the industrial units for submission of the prescribed reports and returns. Neither had any study been conducted so far about the status and impact of industrialisation in the State nor any exit strategy formulated for handling the infrastructure and manpower engaged by the industries, after conclusion of the GoI incentive period.

ROADS AND BRIDGES DEPARTMENT

1.4 Unfruitful expenditure (₹ 11.32 crore), undue favour to contractor (₹ 61.18 lakh), cost escalation (₹ 13.11 crore) and idling of stores of ₹ 24.20 lakh

Execution of the work 'Construction of Gurassey road from Bio-diversity Park, Temi, Gurassey in South Sikkim' by Roads and Bridges Department (RBD) was characterised by failure of the RBD to provide connectivity to five interior villages of South Sikkim despite incurring ₹ 11.32 crore on the project, undue favour of ₹ 61.18 lakh to the contractor due to unwarranted release of SD (₹ 35.91 lakh), outstanding bills (₹ 25.27 lakh), cost escalation of ₹ 13.11 crore and idling of stores of ₹ 24.20 lakh.

A Unfruitful expenditure (₹11.32 crore), undue favour to contractor (₹61.18 lakh) and cost escalation (₹13.11 crore)

The Roads and Bridges Department (RBD) took up (November 2005) the 'Construction of Gurassey road from Bio-diversity Park, Temi, Gurassey (Km 1st to 8th) in South Sikkim' under Economic Importance Scheme to provide connectivity to five interior villages, namely Phalak, Thangshing, Upper Bermoil Tokal, Tinglay and Niz-Rameng. The project was sanctioned (2007-08) by the Government of India (GoI) at a cost of ₹ 22.67 crore to be shared equally between the GoI and the Government of Sikkim (GoS). A total of ₹ 11.32 crore was released (between 2007-08 and 2015-16) towards the project by GoI (₹ 6.05 crore) and GoS (₹ 5.27 crore). The work was awarded (February 2008) to the contractor[40] at 32 *per cent* above the estimated cost with stipulation to complete within 18 months[41] (August 2009).

The Sikkim Public Works (SPW) Manual (Section 22) read with General Terms and Condition of Contract (Clause 2 and 3) envisaged the Department to ensure strict observance of time schedule by the contractor for completing the work Clause 16 of General Terms and Condition of Contract envisaged rescinding the contract at the risk and cost of the contractor in case of failure to complete the work in time by the contactor and retaining Security Deposit (SD) and any sum due to the contractor towards likely additional cost for completing the work.

Audit scrutiny revealed (March 2018) that:

- though the work was scheduled to be completed within a period of 18 months (August 2009), the work was incomplete as of March 2018[42], even after more than eight years of scheduled completion date (August 2009) due to failure of the RBD to closely monitor progress and exercise due rigour in execution of the work;

[40] *Shri Passang Lepcha.*
[41] *Date of commencement of work – February 2008*
[42] *The work was stalled since September 2015 after achieving 48 per cent of physical progress.*

- after expiry of the scheduled date of completion (August 2009)[43], the Department allowed the time extension up to August 2012 (three years) on the request of the contractor with a direction that under no circumstances will further time be extended. However, the RBD again granted time extension for four times[44] on the request of the contractor on the plea of cold weather, heavy rainfall, unavailability of stock material, *etc.* without ascertaining the veracity of the reasons given in the contractor's request which clearly established that the action of granting extensions for such a long period was unjustified and arbitrary and without exercise of due diligence.
- despite grant of several time extensions, instead of ensuring progress of work as warranted by the contract, the contractor finally expressed (9 September 2015) his inability to complete the work on the plea of his advanced age;
- while the RBD accepted the contractor's plea to rescind the contract, it, however, failed to realise likely additional cost for completing the work at the risk and cost of the contractor from the contractor, as envisaged under Clause 16 of the General Terms and Conditions of Contract. As on the date of rescinding the contract, physical progress of work was up to 48 *per cent* and total expenditure ₹ 11.32 crore[45] (50 *per cent* of sanctioned cost);
- the RBD instead of retaining the available amount of SD (₹ 35.91 lakh) and outstanding bill payment (₹ 25.27 lakh) to partially make up towards additional cost of ₹ 13.14 crore[46] (as envisaged in Section 16 of the General Terms and Condition of Contract), released SD of ₹ 35.91 lakh and outstanding bills of ₹ 25.27 lakh to the contractor.
- the RBD submitted (June 2018) revised Detailed Project Report (DPR) of ₹ 24.46 crore to the Ministry of Road Transport and Highway (MoRTH), GoI for fresh sanction for execution of balance work valued ₹ 11.35 crore as per original DPR, indicating cost escalation of ₹ 13.11 crore on the project due to the huge time overrun. Approval of MoRTH was awaited as of December 2018.

Thus, due to failure of the RBD in exercising due rigour in execution of the work and ensuring adherence to the terms of contract by the contractor, connectivity to five interior villages of South Sikkim as envisaged under the project remained unachieved despite incurring ₹ 11.32 crore on the project. Besides, undue favour of ₹ 61.18 lakh was granted to the contractor due to unwarranted release of SD (₹ 35.91 lakh) and outstanding bills (₹ 25.27 lakh). Further, the fate of the project remained uncertain, since the work has not been restarted as on May 2019 as the revised DPR with cost escalation of ₹ 13.11 crore was awaiting sanction by the GoI.

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43 *Physical progress as on August 2009 was 13 per cent.*

44 *On 06.09.12 to 28.12.13 (15 months); 06.02.14 to 30.06.14 (five months); 24.09.14 to 31.12.14 (three months) and 21.08.15 to 31.12.15 (four months).*

45 *Paid to contractor: ₹9.84 crore and expenditure on contingent expenses: ₹1.47 crore.*

46 *Additional cost: ₹ 24.46 crore (Estimated cost of revised DPR) minus ₹ 11.32 crore (Cost of work executed) = ₹13.14 crore.*

As the department has miserably failed to complete the work, the following course of action is recommended to be taken by the Government in the interest of work and financial discipline:

1. fix responsibility of the Executive Engineer and Superintendent/Chief Engineer for failing to monitor the progress of work and exercise due diligence in completion of the project leading to the work remaining incomplete;
2. fix responsibility of the Executive Engineer for releasing the SD of ₹ 35.91 lakh despite the fact that the work has not been completed.;
3. fix responsibility for releasing the payment of ₹ 25.27 lakh though as per the agreement the contractor was to bear the additional cost required for completion of the work

The matter was referred to the Government (April 2018). Reply was still awaited (December 2018).

B Idling of stores of ₹24.20 lakh

The RBD procured 54.62 MT of steel bars (out of 73.98 MT) valuing ₹ 24.20 lakh for the work *Construction of road from Biodiversity Park to Gurassay*, *South Sikkim* were never put to use and lying in deteriorated condition at Sirwani Store, Singtam, East Sikkim since February 2011 as the work was closed (September 2015) by the Department after attaining 48 *per cent* physical progress.

The Department had not taken due precaution as required under SPW Manual and the Bureau of Indian Standard (BIS) to either stack the steel bars above ground level by at least 150 mm or to cover them with tarpaulin in case of long storage to avoid corrosion.

The Department stated (July 2018) that efforts would be made to use these steels bars in future in other works. However, the fact remains that the Department had not been able to utilise these steel bars as of July 2018 even after more than seven years of their purchase. Prolonged storage of steel bars in an open area without any protection from natural elements (rain, wind, moisture, dust, *etc.*) would render them useless due to corrosion.

1.5 Idling of stores

The Department failed to ensure productive use of steel bars leading to idling of stores of ₹ 46.18 lakh for more than six years. Prolonged storage of steel bars in an open area without any protection from natural elements would make them useless due to corrosion and would also entail further expenditure to make them reusable.

As per Sikkim Public Works (SPW) Manual, 2009 (Section-30) Divisional Engineers are responsible to ensure safe custody of stores, protection from deterioration and fire. Bureau of Indian Standard (4082: 1996) also prescribed for stacking the stock material above ground level by at least 150 mm to avoid corrosion.

Audit scrutiny of records of the office of the Principal Chief Engineer-cum-Secretary, Roads and Bridges Department revealed (April 2018) that the Department had procured

(May 2012) 114.64 MT of steel bars of various sizes worth ₹ 63.62 lakh for the work of *Upgradation and strengthening of Ranka-Sichey Road (1 to 11 km), East Sikkim.*

Out of these steel bars (114.64 MT), only 27.24 MT of steel bars were issued in this work while the balance quantity of steel bars (87.40 MT) was lying idle since the date of purchase (since May 2012).

Physical verification (20 April 2018) of the departmental store at Tadong, East Sikkim by Audit in the presence of Assistant Engineer and Store-in-Charge revealed that 87.40 MT valuing ₹ 46.18 lakh of steel bars were lying in the open yard since May 2012 in deplorable condition despite availability of storage facility as can be seen from images given below:

Image 1.4.1	**Image 1.4.2**	**Image 1.4.3**
		
Unused departmental store	**Steel bars stored at open yard**	**Corroded steel bars (unfit for use)**

The steel bars were not used by the contractor as the bridge component, for which these steel bars were procured, was subsequently excluded (November 2014) from the work *Upgradation and strengthening of Ranka-Sichey Road (1 to 11 km), East Sikkim* due to change in scope of work and execution of additional works relating to hill cutting and throwing of spoils. This indicated that preliminary estimate was not drawn properly to incorporate all essential items of work. The contactor had executed the work without the bridge component and ₹ 15.02 crore was released to him as of March 2018.

The Department had not taken due precaution as required under SPW Manual and the Bureau of Indian Standard (BIS) to either stack the steel bars above ground level by at least 150 mm or to cover them with tarpaulin in case of long storage to avoid corrosion.

The Department stated (July 2018) that efforts would be made to use these steels bars in future in other works. However, the fact remains that the Department had not been able to utilise these steel bars as of July 2018 even after more than six years of their purchase. Prolonged storage of steel bars in an open area without any protection from natural elements (rain, wind, moisture, dust, *etc.*) would render them useless due to corrosion.

1.6 Abandonment/non-completion of works, non-recovery of mobilisation advances and non-imposition of penalty on defaulting contractors (Co-operative Societies)

The award of works by Roads and Bridges Department to various Co-operative Societies without ascertaining their credentials and technical capacity to execute road works led to abandonment/non-completion of works after incurring ₹ 6.08 crore besides non-recovery of Mobilisation Advances of ₹ 1.15 crore and non-imposition of penalty of ₹ 1.40 crore.

The Government of Sikkim enacted (July 2008) the 'Sikkim District Based Entrepreneurs and Professionals Incentive, Development and Promotional Act, 2008' to give preference to district based entrepreneurs in execution of contract works in developmental and welfare oriented projects upto such amount as may be specified by notifications. This is subject to condition that technical competence or capability in the standard of work shall not be compromised.

The Roads and Bridges Department (RBD), in exercise of the powers conferred [Para-5(1)] under the Act ibid, amended Para-15.1 and Para-24.6 of Sikkim Public Works (SPW) Manual, 2009 to exempt registered Co-operative Societies (CSs) from (i) payment of Earnest Money (EM) (July 2010) for execution of contractual works under the State Government departments and (ii) submission of equivalent amount of Bank Guarantee (BG) (March 2011) for drawal of interest free Mobilisation Advance (MA).

The RBD further under Notification dated 28 July 2015 allowed registered CSs as contractors to execute construction works of developmental and welfare oriented projects upto ₹ one crore (Class-IV enlistment) and upto ₹ two crore (Class-III enlistment) without calling of tenders within the territorial jurisdiction of Gram Panchayats or Urban Local Bodies where the work would be executed.

Audit scrutiny of 80 works allotted to 80 CSs revealed (March 2018) that 15 works aggregating ₹ 13.96 crore, sanctioned during 2010-11 to 2011-12, were awarded to 15 CSs (between March 2011 and March 2013). The works were stipulated to be completed between March 2012 and March 2015. The MA of ₹ 1.25 crore was also released to these CSs immediately after the award of work for mobilisation of material and plant and machinery for expeditious completion of the works. The MAs were to be recovered from the CSs' running payment bills.

Audit scrutiny revealed the following:

- The RBD neither assessed the technical competence and the capability of the CSs to execute the works as per standards required under the Act (2008) while awarding the work nor ensured completion of works as scheduled in the Contract Agreement.
- The CSs had failed to complete the works even after lapse of scheduled date of completion by three to six years despite receiving MAs.
- While three CSs had surrendered the work without execution, 12 CSs had stalled the work after attaining a physical progress between 25 and 91 *per cent* {25 *per cent* (two CSs), 33 *per cent* (seven CSs), 66 *per cent* (one CS), 90 *per cent* (one CS) and

91 *per cent* (one CS)} as of March 2018. The Department issued (January 2016) final notice to eight (out of 15) CSs directing them to refund the MAs within a month, failing which penal action as per Clause 2 (Compensation for delay at the rate of one *per cent* per week subject to maximum of 10 *per cent* of total work value) of the General Directions and Conditions of Contract would be initiated for delay in execution of works.

- The contract of one CS was rescinded (June 2018). Warning had been issued to two CSs while no action was initiated against one CS which had not completed the work despite lapse of scheduled date of completion citing inadequate manpower and machinery at their disposal. The Department did not take any action against three CSs which had abandoned the work without execution. The details are shown in **Appendix 1.4**.
- The Department not only failed to recover MAs of ₹ 1.15 crore directly from these 15 CSs but it also had no scope of recovery from Earnest Money (EM) and Bank Guarantee (BG) as the CSs were exempted from payment of EM and submission of BG.
- Though the CSs had not refunded entire amount of the MAs of ₹ 1.15 crore and not completed the works despite notices, the penalty for delay at the rate of 10 *per cent* of work value amounting to ₹ 1.40 crore[47] for 15 works was not levied by the Department against the CSs as of March 2018.
- In seven cases, payment was made in excess of physical progress of works.

Thus, due to failure of the RBD to assess the technical competence of the CSs to execute the works and its failure to ensure execution of works by the CSs, the objective of providing rural road connectivity across the State was not achieved even as on May 2019 despite expenditure of ₹ 6.08 crore (excluding MA of ₹ 1.14 crore). Cost escalation of works also could not be ruled out in view of time overrun.

The Department stated (July 2018) that the observations of Audit had been noted. Henceforth, MA would be released based on collateral Security, *i.e.* BG. Further, at the instance of Audit, eligibility criteria in the SPW Manual had been amended (12 June 2018) to exclude CSs from participation in the tendering process.

Recommendation (22):

- ***The Government/ Department may ensure the release of Mobilisation Advance only after receiving of appropriate amount of Bank Guarantee.***

[47] *10 per cent of ₹13.96 crore.*

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

1.7 Excess payment to contractors

The Sikkim Rural Roads Development Agency under Rural Management and Development Department (RMDD) included contractors profit and overhead charges twice in Analysis of Rates for stone aggregates, first during the preparation of basic rates and again while determining item rates of construction of Granular Sub Base and Water Bound Macadam grading II and III leading to excess payment of ₹ 1.28 crore to three contractors in 23 works.

The Prime Minister Gram Sadak Yojana (PMGSY), a centrally sponsored scheme, is implemented by the States to provide all weather rural road to the eligible unconnected habitations with a population of 250 persons or more in the rural areas of hilly states.

The estimate for works were framed based on State Schedule of Rates (SOR)/Analysis of Rates (AoR) prepared by the Sikkim Rural Roads Development Agency (SRRDA)[48] headed by Chief Executive Officer(CEO), RMDD, Government of Sikkim for PMGSY Phase VIII works, using Books of Specifications and Standard Data Book (SDB) issued by Ministry of Rural Development (MORD), Government of India. The SDB was prepared by Indian Road Congress (IRC) to be followed by various states for preparation of State level Analysis of Rates/Schedule of Rates for PMGSY roads. The AoRs comprised of requirement of materials, labour and other overheads for various components to execute a particular item of work and per unit rates of each of the components. While the requirement of materials and overheads were based on SDB, the rates of each component were determined by the Department based on market survey during the time of preparation of AoR to arrive at per unit cost of each item.

Scrutiny of AoR (March 2018) for the PMGSY works (Phase-VIII) relating to Gangtok and Pakyong Divisions covering the period May 2014 to March 2018 for three items of works viz., (i) construction of Granular Sub Base (GSB) (ii) Water Bound Macadam (WBM) grading II and (iii) Water Bound Macadam (WBM) grading III revealed that the basic items, i.e. stone aggregates[49] are used as one of the constituents in these items of works. The rates of these items of works were erroneously enhanced to a higher rate due to inclusion of contractors' profit and overhead charges twice, first during the preparation of the rates for basic item (*i.e.* stone aggregates) and again while determining the rates for these items of works leading to double inclusion of contractors' profit and overhead charges in basic items (*i.e.* stone aggregates). This resulted in erroneous enhancement of rates by ₹ 163.51 per cum, ₹ 99.28 per cum and ₹ 106.28 per cum respectively for the three items of works as detailed below.

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[48] *An state level autonomous agency under Rural Management & Development Department*

[49] *Stone aggregates: (a) aggregate for GSB I, (b) aggregate of grading II and (c) aggregate of grading III are used in (a) construction of GSB, (b) WBM grading II and (c) WBM grading III respectively.*

Table 1.7.1
Details of erroneous enhancement of item rates

Item of works	Item rate as per AoRs (₹ per cum)	Item rate as calculated by Audit excluding contractors' profit and overheads in analysed rates for basic item, i.e. stone aggregates (₹ per cum)	Excess in item rates (₹)	Quantity executed (cu m)	Excess payment (₹)
Construction of GSB	760.68	596.87	163.51	45,735.253	74,78,171.22
WBM Grading II	1,450.95	1,351.67	99.28	20,364.567	20,21,794.21
WBM Grading III	1,455.33	1,349.05	106.28	18,518.267	19,68,121.42
Tender premium of 16 *per cent* above estimate cost on 19 works					13,62,964.61
TOTAL					**1,28,31,051.46**

The erroneous enhancement by CEO, SRRDA in item rates inflated the estimate which led to avoidable excess payment of ₹ 1.28 crore to three contractors in 23 works[50] during May 2014 to March 2018 in implementation of PMGSY works as detailed in **Appendix 1.5**.

The Department stated in reply (July 2018) that the analysis of rates for the PMGSY works in Sikkim was prepared based on the Standard Data Book (SDB) duly vetted by the National Rural Roads Development Agency, Government of India. The SDB had a provision of 12.5 *per cent* towards the contractor's profit and overheads. Thus, the double payment in this regard had not been made towards contractor's profit and overheads.

The reply of the Department was not acceptable as contractors' profit and overheads were included in the rates for 'basic item' (*i.e.* stone aggregate) and also item rates for 'GSB and WBM grading II & III' which comprised the stone aggregate as one of the basic item resulting in double payment. Further, the double payment of contractor's profit and the overheads charges is not justified on the ground of adherence to the SDB by the Department while preparing the item rates as there is no provision for double payment of contractor's profit and the overheads charges in the SDB.

[50] *Audit comment is based on examination of only 23 out of 93 works.*

FOREST, ENVIRONMENT AND WILDLIFE MANAGEMENT DEPARTMENT

1.8 Diversion of Cess Fund

Out of ₹ 34.38 crore transferred by the Forest, Environment and Wildlife Management Department (FEWMD) from the Cess fund to the Health Care, Human Services and Family Welfare Department (HCHSFWD), the HCHSFWD utilised only ₹ 1.05 crore for bio-medical waste management system for protection and improvement of environment while the balance of ₹ 33.33 crore was irregularly utilised for construction of the 1,000 bedded hospital at Sichey against the intent of the Sikkim Ecology Fund and Environment Cess Act, 2005.

The State Government enacted (April 2005) the Sikkim Ecology Fund and Environment Cess Act, 2005 to provide for protection and improvement of environment. As per Section 5 of this Act, every dealer, manufacturer, State and Central Government Department or any other organisation shall be liable to pay Cess at the rate of (i) one *per cent* in respect of goods specified in Schedule II of the Act, and (ii) five *per cent* in respect of hotels, resorts, lodges or motels towards bringing non-biodegradable materials in the State from outside the State for sale or any other use. According to Rule 5 of the Sikkim Ecology Fund and Environment Cess (Management of Fund) Rules, 2008, the Principal Chief Conservator of Forest, Forest, Environment and Wildlife Management Department (FEWMD) was responsible for management of the fund. The levy of cess commenced in 2007-08. During the period of 2007-08 to 2017-18, a total of ₹ 287.45 crore was collected, of which, ₹ 229.22 crore was utilised by FEWMD during the period.

Audit scrutiny of records of FEWMD revealed (January 2018) that expenditure of ₹ 105.66 crore was incurred from Cess fund during 2016-18 for various purposes[51] including transfer of ₹ 34.38 crore[52] to Health Care, Human Services and Family Welfare Department (HCHSFWD) in relation to construction of the 1,000 bedded Hospital at Sichey, East Sikkim.

Audit observed that out of the total fund of ₹ 34.38 crore transferred by the FEWMD to the HCHSFWD for construction of 1,000 bedded hospital at Sichey, the HCHSFWD utilised only ₹ 1.05 crore[53] in construction of Effluent Treatment Plant (ETP) and Incinerator for bio-medical waste management system conforming to the provision of the Act for protection and improvement of environment. The entire balance of ₹ 33.33 crore was irregularly utilised for construction of the hospital which was against the intent of the Act

[51] *Creation of facilities for CESS collection, Grants-in-aids to various Boards created under the FEWMD such as Medicinal Plant Board, Land Use Board, State Biodiversity Board, High Altitude Research Centre, etc., Providing State share of funds to various CSS under FEWMD, Development of Parks and Gardens, Scientific Management of Forest etc*

[52] *₹25 crore in August 2017 (Cabinet approval in September 2007); ₹9.38 crore in February-March 2017 (Cabinet approval October 2016).*

[53] *ETP: ₹0.60 crore and Incinerator: ₹0.45 crore.*

and did not help in achieving the objectives of amelioration of environment, ecological security and restoration of ecological balance of the various areas in the State as enshrined in the Act. The FEWMD, thus, failed to ensure judicious utilisation of fund by HCHSFWD for the purpose of protecting environment and improving the quality of environment, etc. as required under Rule 5(2) of the Sikkim Ecology Fund and Environment Cess (Management of Fund) Rules, 2008.

The FEWMD, inter alia, stated in reply (October 2018) that the State Government in order to provide better health care and facilities for its people decided to establish a multispecialty hospital and accordingly, the HCHSFWD moved proposal to the Government (State Cabinet) to allocate funds from the Sikkim Ecology and Environment Cess Fund as additional fund for bio-medical waste management and other allied activities. Hence, the fund provided to the HCHSFWD did not constitute irregular diversion. The reply of the FEWMD was not tenable as, out of the total Cess fund of ₹ 34.38 crore transferred to the HCHSFWD, only ₹ 1.05 crore was utilised for environmental measures (installation of incinerator and ETP) while the entire balance of ₹ 33.33 crore was diverted for construction of hospital building and not for bio-medical waste management and other allied activities as contended by the FEWMD. The Sikkim Ecology Fund and Environment Cess Act, 2005 envisaged use of the Cess Fund only for protection and improvement of environment, control and abatement of environment pollution and restoration of ecological balance and not for construction of hospitals.

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

1.9 Infructuous expenditure and loss of revenue

The decision of the Urban Development and Housing Department to proceed with the acquisition of Star Cinema Hall Complex at Gangtok for construction of Multilayer Car Park-cum-Commercial Complex despite being aware of the tenants' occupying the building led to infructuous expenditure of ₹ 6.49 crore on acquisition, continued occupation of the building by tenants without payment of any rent, and non-commencement of work of construction of Multilayer car park cum Commercial Complex.

The Urban Development and Housing Department (UDHD) purchased (March 2011) Star Cinema Hall Complex[54] located in the heart of Gangtok at ₹ 6.49 crore for construction of Multilayer Car Park-cum-Commercial Complex. Payment of ₹ 5.19 crore[55] was released to the co-owners between March 2011 and March 2015, after deducting Government share (18.81 *per cent*) of ₹ 1.30 crore. The asset was taken over by the Department based on the meeting held (February 2011) with the owners of the Complex, District Collector, East

[54] *Jointly owned by State Government (18.81 per cent share) and 24 private individuals.*
[55] *₹1 crore (March 2011), ₹3.05 crore (January 2015) and ₹1.14 crore (March 2015).*

Sikkim and other departmental representatives on *as is where is basis*[56] with the stipulation that the tenants would be evicted by the UDHD with the assistance of the District Collector.

Audit scrutiny revealed (March 2018) that the decision of the Department to take over the asset on *as is where is basis* was without due diligence as there were 27 tenants on the property at the time of acquisition of the property. Further, there was nothing on record to suggest that the Department even asked the owners of the property to get the tenants evicted before the property could be taken over by the Department.

It is pertinent to mention here that as per Rule 4 (1) and 5 (2) of the Sikkim Public Premises (Eviction of Unauthorised Occupants and Rent Recovery) Act, 1980 (SPP Act), the Collector is empowered to evict the illegal occupants from the public premises within 15 days of Notice failing which possession of the premises will be taken over by force within 30 days.

Further scrutiny revealed that neither the Government fixed any time period for eviction of tenants nor was any action initiated by the UDHD for seven years after acquisition of the complex to evict the tenants. Notices were served to tenants only during May 2017 for eviction by 30 June 2017. The Department did not follow up with the tenants to ensure eviction by 30 June 2017 and also did not involve the District Collector, East District to vacate the premises occupied by the tenants as was agreed during the time of acquisition and as was stipulated in the SPP Act.

Moreover, while UDHD could not evict 27 old tenants, it made allotment to other four new tenants (May-September 2016) for commercial use at a rate of ₹ 15,000 per month. The allotment to new tenants was against the original purpose of the acquisition as the complex was purchased for construction of Multilayer Car Park-cum-Commercial Complex.

Although, the building continued to be occupied by the tenants, the Department issued (July 2017) letter of award to a Kolkata based firm[57] for construction of Multilayer Car Park-cum-Commercial Complex by dismantling the premises. The firm was to commence the construction work within six months from the award of the work, the construction had not commenced as of December 2018 even after one and half year of award of work due to failure of UDHD to make available encumbrance free premises to the firm.

Image 1.9.1

While no action was initiated against 27 tenants except for issuing notices (May 2017), the Department served (October 2018) legal notices to only three (out of 4) new tenants to evict the premises within seven days, failing which possession of the said premises would be taken over by force, if necessary. Subsequently, the Department sealed (November 2018) the portion of

[56] *The condition where it is the buyer's responsibility to get the property from the location where it is at the time of sale to the location where the buyer wants it.*

[57] *M/s Panchdeep Construction Limited, Kolkata.*

premises occupied by these three tenants. This led to continued occupation of the premises by 28 tenants (27 old plus one new from September 2016) without paying any rent[58] for the period March 2011 to December 2018.

Thus, acquisition of the Complex by UDHD was characterised by:

- Absence of due diligence in acquiring the building in an encumbrance free state;
- Failure to initiate action to evict the tenants by invoking Sikkim Public Premises (Eviction of Unauthorised Occupants and Rent Recovery) Act, 1980;
- Allotment to four new tenants.

This led to infructuous expenditure of ₹ 6.49 crore as construction of Multilayer Car Park-cum-Commercial Complex could not start even after lapse of seven years of acquisition of the Complex.

The Department accepted (August 2018) that the construction could not commence as the tenants continued to occupy the premises. The Department stated that they tried to evict the tenants through negotiation without taking legal recourse as the legal process would take long time. The help of District Collector was not sought in evicting the tenants as the tenants were not illegal occupants. The settlement had since been done and the process of vacating the premises had started.

In the Exit meeting (21 December 2018), the Secretary, UDHD stated that the eviction process had already started (October 2018) by invoking the SPP Act. The Secretary, however, was unable to predict the likely date by which eviction process would be finally completed to enable the commencement of construction of the multi-layer car-parking project.

The reply was not based on facts as the SPP Act was invoked in case of only three tenants that too only in October 2018, leaving another 28 tenants (27 old plus one new) to continue to occupy the premises as of December 2018. As a result, construction of Multilayer Car Park-cum-Commercial Complex could not commence despite an expenditure of ₹ 6.49 crore.

[58] *₹ 3.60 crore = 27 x ₹ 15,000 x 92 months i.e. April 2011 to December 2018.*