

**Ministry of External Affairs and
Department of Commerce**

**Performance Audit of the functioning of Commercial Wings in the Indian
Missions/Posts abroad**

1. Introduction

Commercial wings were set up in the Indian Missions/Posts abroad to promote India's trade and economic exchanges with the world. These are funded from the budget of the Department of Commerce (DOC), Ministry of Commerce and Industry. The primary task of the commercial wings is to assist the Government in formulation of its trade and economic policies through regular feed back on the prevailing market trends and trade activities in the Post¹ country and thus contribute to acquiring a much greater role in the expanding world economy by India. The Manual of Instructions to Commercial Representatives Abroad (MICRA) issued by the Ministry of Commerce provides the broad framework for their operations.

2. Organisational set up

The DOC supports 65 commercial wings functioning in the Indian Missions/Posts abroad. In addition, it provides budgetary support to 18 Missions/Posts to employ local Marketing Assistants to undertake commercial and trade promotion activities. It also provides funds to various Missions/Posts to undertake commercial and trade promotion activities. The DOC set up Business Centres in some commercial wings to provide various facilities to visiting Indian exporters/businessmen.

The commercial wings are headed by a Minister/Counsellor/First Secretary/Second Secretary, acting as the Commercial Representative (CR) who is supported by India based² and local staff. The CR assists the Head of the Mission/Post in the discharge of his duties and responsibilities relating to trade, investment and allied matters.

3. Audit objectives

The performance audit of the commercial wings abroad was taken up to examine whether

- appropriate procedures and systems were established by the DOC and the MEA for commercial wings in the Missions abroad consistent with the policy/objectives and whether the commercial wings functioned economically, efficiently and effectively;
- human resource management was effective and commensurate with the role and responsibilities of the commercial wings;

¹ Country where Indian embassy or consulate is located

² Staff posted from India

- a proper system was in place for budgeting, release and utilisation of funds;
- the DOC and the MEA carried out strategic planning and set goals, objectives and annual targets to be achieved by CRs;
- the provisions of MICRA in dealing with the economic and commercial activities in the Post country were followed, and
- periodic monitoring and evaluation with reference to the annual targets had been conducted and the internal control mechanism instituted was adequate and effective.

4. Audit methodology

An entry conference was held in November 2006 with the senior officers of the DOC and the MEA before taking up the performance audit. The audit objectives, audit criteria, scope of audit and the main areas of audit examination were explained. The DOC apprised audit of the various activities related to the commercial wings as well as the strengths and weaknesses in the functioning of these wings.

The issues relating to the objectives and procedures in the DOC and the MEA for monitoring the performance of these wings were discussed and the perceptions as well as suggestions were obtained.

5. Audit criteria

Audit criteria used in the performance audit included:

- objectives and procedures for setting up of the commercial wings and recommendations of the Expenditure Reforms Commission (ERC);
- various decisions by the DOC regarding restructuring/reallocation of the staff in the commercial wings;
- system of budgeting, release and utilisation of funds;
- strategic goals and objectives, annual targets to be achieved by the commercial wings;
- provisions contained in the MICRA and instructions issued by the DOC and the MEA to the commercial wings from time to time;
- system of monitoring, internal controls and evaluation.

6. Sample

25 Missions/Posts with commercial wings were selected for test check through statistical sampling using the Probability Proportional to size with Replacement (PPS) method and findings were developed on the basis of information furnished by them through questionnaires or on the basis of examination of their records.

7. Scope of audit

The performance audit was conducted through examination of the records of the DOC and the MEA, besides test check of the records of 25 selected Missions/Posts³ covering the period from 2001-02 to 2005-06.

8. Audit findings

8.1 Objectives for setting up of commercial wings

The size and structure of the commercial wings abroad were fixed by the DOC depending on the economic and commercial relations between India and other countries at that point of time. The political, economic and trade scenario across the world has since undergone far reaching changes. There have also been significant developments in communication as well as Information Technology. It was, however, observed that over the years composition of the staff as well as the number of commercial wings in the Indian Missions and Posts remained static. Consequently, commensurate benefits from the expenditure incurred on these wings did not result as discussed in the succeeding paragraphs.

8.1.1 Non-implementation of the recommendations of the ERC

The Government constituted in February 2000 an Expenditure Reforms Commission (ERC) to identify areas where downsizing could be implemented in a systematic way with a view to reducing the role and the administrative structure of the Central Government Ministries, Departments and attached organisations. The ERC in Part VII of its 9th Report *inter-alia* recommended in September 2001 that the need for offices abroad of all other ministries/departments other than MEA should be examined afresh and wherever considered feasible the activities of other ministries should be undertaken by the MEA's offices abroad within the budget and staff allocated to them. The Commission further recommended that only in those cases, where full justification is advanced for other ministries to have their own offices abroad should be allowed to post their own officials in such offices. The same procedure was to be followed in respect of the commercial wings abroad of the DOC.

In terms of the recommendations of ERC, the DOC was required to transfer the activities pertaining to the commercial wings in the Indian Missions abroad to the existing staff of the MEA. In case it was not feasible for the DOC to do so, it was then required to propose to the Cabinet that its own staff be posted abroad and reflect the expenditure in its budget. The DOC neither handed over its functions to the MEA nor did it obtain the approval of the Cabinet for posting its own staff to the commercial wings in the Missions/Posts abroad. Consequently the staff in the commercial wings abroad continued to be posted from the MEA while the expenditure was being borne by the DOC. The present arrangement blurred the accountability at all levels and,

³ Accra, Amman, Berne, Bucharest, Cairo, Colombo, Frankfurt, Hamburg, Hong Kong, Johannesburg, Kuwait, Lagos, London, Moscow, Nairobi, New York, Prague, Santiago, Sao Paulo, Singapore, Tehran, Tokyo, Toronto, Warsaw and Washington

consequently, it could not be ensured whether the commercial wings abroad were discharging their functions effectively and efficiently.

Recommendation

- *The DOC in consultation with the MEA may take action on the recommendations of the ERC and conduct in-depth review of the functioning of the commercial wings.*

The DOC stated in March 2007 that the recommendations of audit have been noted for initiating action accordingly.

8.1.2 Failure to regroup the commercial wings

The DOC sent a proposal on regrouping of the commercial wings in the Indian Missions/Posts abroad to the Cabinet Secretariat in June 1987 for submission to the Cabinet. As the MEA, Department of Expenditure and Department of Economic Affairs did not agree with the note in toto, the proposal was instead considered by the Committee of Secretaries (COS) in August 1987. The COS agreed to the proposal for creation of posts/re-deployment of staff in the commercial wings abroad and asked the DOC to submit a note to that effect to the Cabinet seeking its approval. However, the DOC took more than nine years to submit the revised proposal to streamline the commercial wings. The proposal was submitted to the Cabinet Secretariat in April 1997 after discussing it with the MEA in June 1996 which was again revised and re-submitted in August 1998 for being placed before the COS for their approval.

The proposal submitted to the Cabinet was prepared taking into consideration the views of the High Powered Committees viz. Trivedi Committee (1976), Alexander Committee (1978) and Estimates Committee of Parliament, MEA (1980-81) constituted to study the functioning of the commercial wings abroad. These Committees had stressed the need for specialisation, induction of qualified personnel, improvement in their recruitment and training, apart from the urgent need for effectively strengthening the commercial wings in countries which were considered as thrust and emerging markets from the point of view of Indian exports. The proposal of August 1998 aimed firstly to increase the number of full fledged commercial wings from 66 to 90 in 80 countries by setting up new commercial wings in 30 Missions which included 25 countries identified as thrust areas, while abolishing commercial wings in six countries, and secondly to reduce 71 non-diplomatic and local posts and increase the diplomatic posts by 31 posts. The proposal involved an additional annual expenditure of Rs. 5.40 crore. The proposal was received back from Cabinet Secretariat in July 2000 without any comments. Thereafter, the DOC did not take up the issue with the Cabinet Secretariat.

In April 1999, the DOC revised the proposal and submitted it to the MEA and Ministry of Finance (MOF) for their comments. The revised proposal sought to effect efficiency in the performance of the staff and save Rs. 2.42 crore annually by reducing 106 non-diplomatic posts and increasing the diplomatic and local posts by 21 and 28 posts respectively apart from increasing the coverage in more countries and covering thrust and emerging markets. The MEA did not agree (October 1999) with

the proposal on the ground that the recommendations of various committees on the basis of which the proposal was mooted had been overtaken by developments in the international business and trading environment. The MEA did not suggest any alternative at any point of time, nor did the DOC revise the proposal further to take into account the changed international business and trading environment. Lack of a final decision hindered the expansion of the activities of the commercial wings to more countries, non coverage of countries identified as thrust and emerging markets, achievement of efficiency in performance and better utilisation of scarce resources.

8.1.3 Rationalisation of staff structure in the commercial wings

As the proposals for reorganisation of the commercial wings in the Indian Missions/Posts abroad was under consideration for over a decade and could not be finalised, the DOC mooted various proposals to rationalise the staff structure in the commercial wings in different Indian Missions/Posts abroad. However, the proposals could not be implemented. Some such proposals are discussed in Table 1 below.

Table 1: Non implementation of proposals for restructuring of commercial wings

Sl. no.	Proposal	Outcome/Remarks
1.	Abolition of all 34 local temporary posts of Group 'D' w.e.f. November 1999 and create 16 additional posts of local Marketing Assistants with a view to reducing establishment expenditure and increase trade promotional activities.	Out of 34 posts of Group 'D' staff, only 24 posts were abolished and 13 posts of local Marketing Assistants were created. The remaining 10 posts were initially continued on functional grounds on the request of the MEA and the concerned Missions/Posts up to September 2000. The DOC advised (May 2000) the MEA to make their own arrangements in respect of group 'D' staff in the commercial wings. However, the DOC instead of taking action to abolish the remaining 10 posts of group 'D' staff continued to issue sanctions for continuation of these posts till 2005.
2.	In the meeting presided over by the Commerce Secretary, it was decided (February 2000) to abolish 51 out of 58 posts of local temporary Clerks/Junior Assistants/Stenographers to re-orient the staffing pattern in the commercial wings and enhance market development activities.	The DOC could not implement the decision of the Commerce Secretary taken in February 2000. Reasons for not implementing the proposal were neither recorded on files nor furnished by the DOC.

Sl. no.	Proposal	Outcome/Remarks
3.	Restructuring of commercial wings on the basis of percentage of exports with the post country was proposed by the DOC in October 2002. The proposal intended to create full fledged commercial wings in top 25 export destinations of India, to provide a post of Marketing Assistant in countries which had recorded export of Rs. 150 crore and more and had also shown an average growth of more than 15 <i>per cent</i> during the last three years and did not have any commercial presence, to provide a post of local Marketing Assistant in some of the countries which had a total export of Rs. 50 crore and above and had shown an average growth of 15 <i>per cent</i> and above during the last three years, to close some commercial wings or shift some of the posts (India based and local) from countries with which India had exports of less than Rs. 150 crore and to set up a full fledged commercial wing in Maldives being a SAARC country.	The proposal mooted in October 2002 was forwarded to various Foreign Trade divisions for their comments. Reasons for non implementation of the proposal were neither recorded on files nor furnished by the DOC.

Our audit showed that separate commercial wings had not been set up in Brazil, Malaysia, China and Spain though they were among our top 25 export destinations. In South Korea, though a separate commercial wing had been set up but only a post of local Marketing Assistant had been provided despite large volume of trade with that country. Similarly, despite average growth of export of more than 15 *per cent* and total export of more than Rs. 150 crore per year during the last three years, there was no commercial presence of the DOC in 23 countries⁴. Separate commercial wing was also not set up in Maldives. On the other hand, the Missions in Bulgaria and Union of Serbia and Montenegro continued to operate separate commercial wings in spite of exports that was not only less than Rs. 150 crore but also showed a declining trend during the last three years.

The above anomalies underscore the need for better coordination between the DOC and the MEA in evolving a common vision for strengthening the commercial wings abroad by optimal allocation of manpower so that the duties and responsibilities in so far as they relate to trade, investment and allied matters could be discharged economically and effectively.

The DOC stated (March 2007) that the observations of audit have been noted and the matter will be taken up with the MEA at an appropriate time.

⁴ Afghanistan, Angola, Austria, Benin, Bhutan, Congo, Djibouti, Finland, Guinea, Kazakhstan, Malta, New Zealand, Norway, Slovenia, Togo, Ireland, Maldives, Mozambique, Qatar, Somalia, Ukraine, Vietnam, Yemen

8.1.4 Deployment of manpower

The 65 regular commercial wings and some non-commercial wings with posts of Marketing Assistant in the Indian Missions/Posts abroad had 131 permanent and 56 temporary posts of India based staff and 151 local staff as on 1st March 2005. The DOC issued sanctions for continuation of India based and temporary local posts from March to February on yearly basis. The selection of personnel for the India based posts was made by the MEA from its own cadre with the approval of the DOC except for a few posts in some of the Missions which were filled by the DOC. The recruitment for the local posts was done by the Missions themselves. The details of sanctioned strength of the commercial wings during 2001-02 to 2005-06 are given in the Table 2 below:

Table 2: Sanctioned strength of the commercial wings

Year	As per the MEA's records			As per the DOC's records			Difference with reference to posts sanctioned by DOC {surplus (+)/ short (-)}		
	India based	Local	Total	India based	Local	Total	India based	Local	Total
2001-02	182	133	315	188	139	327	-6	-6	-12
2002-03	184	139	323	186	139	325	-2	-	-2
2003-04	185	143	328	187	151	338	-2	-8	-10
2004-05	192	141	333	187	150	337	+5	-9	-4
2005-06	193	153	346#	187	151	338	+6	+2	+8

The MEA stated that all the posts sanctioned for 2005-06 were filled. It did not furnish the men-in-position for the years 2001-02 to 2004-05.

(i) There were differences in the sanctioned strength as furnished by the MEA and the DOC. However, these differences were not reconciled by them. The DOC did not have any data base of or information about the actual men-in-position and the posts lying vacant either in respect of India based or local posts. The MEA also did not have a data base or information about the actual men-in-position for the period from 2001-02 to 2004-05. Further, as per economy instructions issued by the MOF from time to time, posts lying vacant for more than one year were to be abolished. Since, neither the DOC nor the MEA had any data about the actual men-in-position, their compliance with the instructions issued by the MOF was doubtful.

(ii) Analysis of the manpower sanctioned for the commercial wings revealed that during 2001-02 to 2005-06, 52 to 55 *per cent* of the total posts including both India based and local staff consisted of support staff viz PAs, clerks/typists, stenographers, assistants, accountants, interpreters, drivers and Group 'D' etc. Details are given in Table 3 below:

Table 3: Statement of main posts for commercial work and support staff in commercial wing

Year	Total staff strength	Main posts for commercial work*	Support staff**	Percentage of support staff
2001-02	327	146	181	55
2002-03	325	146	179	55
2003-04	338	162	176	52
2004-05	337	160	177	53
2005-06	338	161	177	52

*Minister/CG/DCG/Ambassador/Advisor, First/Second Secretary/Counsellor/Third Secretary/Registrar/Attache, Research Officer, Marketing Officer/Assistant Director, Marketing Assistant and Statistics Assistant.

**PA/PS/Assistants, Clerks/Typists/Stenographers, Accountants, Translators, Interpreters, Group 'D', Drivers.

The main objective of providing impetus to India's trade and economy by specialised staff directly connected with the work of trade promotion was not served by the support staff and the major portion of the budget was utilized to meet the support staff costs.

(iii) Scrutiny of records and information furnished by the Missions/Posts selected for test check revealed that the staff sanctioned and posted for commercial work were being utilised for work other than commercial, thus compromising the purpose for which these posts were created. The nature of the work assigned to such officers disclosed in test checks is detailed in Table 4 given below:

Table 4: Statement of work other than commercial allotted to commercial staff

Sl. no.	Mission/Post	Staff deployed	Nature of duty assigned
1	Consulate General of India (CGI), Hamburg	India based Assistant	Deployed completely for consular work.
2	CGI, Hamburg	Local clerk/typist	One local clerk/typist was assigned the duty of accountant and also consular work and another was deployed for consular work only.
3	Embassy of India (EI), Berne	Commercial Representative (Minister/Counsellor)	Assigned other work of the Mission.
4	EI, Moscow	Attache (Commerce)	Attache (Commerce) was also assigned the work of Attache (Accounts).
		First Secretary	Was working as First Secretary (Information).
		Personal Secretary/Attache	Was working as Attache (Property).

Sl. no.	Mission/Post	Staff deployed	Nature of duty assigned
		Personal Secretary/ Second Secretary	Was working as Second Secretary (Consular).
5	CGI, New York	Counsellor	Assigned the work of culture and education wing.
		Sr. Assistant Director	Assigned the work of accounts.
		Assistant Director	Assigned consular work.
		Stenographer	Assigned the work of cultural wing.
6	EI, Cairo	Assistants (2)	The two India based assistants posted in the commercial wing were deployed in the Administration and Accounts Wing of the Mission during 2001-06, except for a brief period from January to October 2005 in commercial wing.

On the matter being pointed out, the CGI, New York stated (November 2006) that the core function of the Consulate was consular work and the economic and commercial work in respect of United States of America (USA) was handled by EI, Washington. The reply of the Post is inconsistent as these posts were created for undertaking activities related to facilitation of trade and commerce. Deployment of the staff for other work suggests that either the posts were not required or the commercial work suffered. If the Post was of the view that the economic and commercial work for the entire USA was being looked after by the EI, Washington only, the Post should have surrendered the posts sanctioned by the DOC for commercial work.

(iv) In EI, Washington, critical posts in the economic wing such as Minister, Counsellor and Third Secretary remained vacant for periods ranging between 10 months and 15 months thereby affecting adversely the continuity of the posts and wings. While admitting the audit observation, the Mission stated (December 2006) that the absence of personnel in key posts for long periods does affect the continuity of the wings. It added that posting on these posts is done by the Department of Personnel and Training and the procedures sometimes resulted in delays.

Recommendations

- ***The DOC and the MEA should institute proper mechanism for maintaining data base of the functions as well as human resources in the commercial wings in the Indian Missions/Posts abroad to be able to effectively monitor the functioning of these wings.***
- ***The MEA and the DOC may ensure that appropriate manpower for bona-fide commercial work is only sanctioned and posted for commercial work. In case the staff sanctioned and posted is more than the requirement, the excess/surplus post may be abolished.***

- *The DOC needs to plan and initiate action in such a manner that all procedures for posting in key posts are completed in time.*

The DOC stated (March 2007) that the observations of audit have been noted for future compliance and it is in the process of maintaining the data base of human resources in the commercial wings. Regarding appropriate manpower for commercial work and allocation of duties to commercial staff, it stated that the observations of audit shall be brought to the notice of the commercial wings for strict compliance.

8.2 Financial management

8.2.1 Budget provisions and actual expenditure

The DOC provides funds under different heads of account to 65 Indian Missions/Posts for meeting the expenditure of commercial wings. It also provides funds under the heads 'salaries' and 'trade promotion' to 18 Missions/Posts to engage local Marketing Assistants and to undertake trade promotion activities. In addition, the DOC also provided funds to some of the Missions/Posts under the head 'trade promotion' only to undertake trade promotion activities. The financial outlay/expenditure in these Missions/Posts during 2001-02 to 2005-06 is given in Table 5 below:

Table 5: Budget provisions and actual expenditure under different heads

(Rupees in crore)

Year	Salary & ME*		Foreign travel expenses		Office Expenses		Trade Promotion		RRT**		Total	
	RE	Actual	RE	Actual	RE	Actual	RE	Actual	RE	Actual	RE	Actual
2001-02	33.60	31.71	5.50	6.79	6.73	7.63	3.27	1.47	13.07	13.62	62.17	61.22
2002-03	35.13	34.98	5.75	5.70	8.05	8.27	2.20	1.26	13.00	14.02	64.13	64.23
2003-04	36.00	38.24	9.25	7.74	7.76	7.90	2.74	2.04	14.25	14.98	70.00	70.90
2004-05	38.80	39.25	9.00	7.20	7.93	8.62	2.82	1.58	16.45	15.23	75.00	71.88
2005-06	41.25	35.20	7.36	9.22	6.93	9.36	2.96	1.06	15.50	14.24	74.00	69.08
Total	184.78	179.38	36.86	36.65	37.40	41.78	13.99	7.41	72.27	72.09	345.30	337.31

* Medical expenses ** Rent, rates and taxes

(i) Details of the budget estimates, revised estimates and actual expenditure pertaining to the commercial wings in the various Missions/Posts are given in *Annexure-I*. Analysis of the funds allocated to the Missions/Posts and the expenditure incurred by them revealed that 25 Missions during 2001-02, 40 Missions during 2002-03, 49 Missions during 2003-04, 17 Missions during 2004-05 and 17 Missions during 2005-06 had incurred excess expenditure over the funds provided/allocated under different heads. In respect of 19 Missions for 2001-02, 24 Missions for 2002-03, 6 Missions for 2003-04, 24 Missions for 2004-05 and 23 Missions for 2005-06, the DOC did not have any information about the actual expenditure incurred by those Missions out of the budget provided. This indicated complete lack of budgetary control on the part of the DOC, which was the controlling authority for budgetary purposes.

(ii) A comparison of the actual expenditure with the budget provision shows that the expenditure exceeded the allocation under foreign travel expenses (23 and 45 *per cent*) during 2001-02 and 2005-06, rent, rates and taxes (4 to 8 *per cent*) during 2001-02 to 2003-04, salaries (1 and 6 *per cent*) during 2003-04 and 2004-05, office expenses (2 to 35 *per cent*) during 2001-02 to 2005-06 and overall expenditure during 2002-03 and 2003-04.

(iii) Despite economy instructions of the Government of India issued in September 2004 and November 2005, there was increase in expenditure under almost all the heads except under the head 'Trade Promotion' where there was decrease in the expenditure year after year. The basic purpose of setting up the commercial wings was to boost the trade and commerce and for this purpose funds are provided under 'Trade Promotion'. During 2001-02 to 2005-06, out of the total allocation of Rs. 345.30 crore, major part of allocation (75 *per cent*) was for establishment expenses of salaries and rent, rates and taxes. However, for trade promotion the allocation was a paltry amount of Rs. 13.99 crore only (4 *per cent*). Even out of this allocation, funds to the extent of Rs. 6.58 crore (47 *per cent*) remained unutilised. Similarly, out of the total expenditure of Rs. 337.31 crore incurred during 2001-02 to 2005-06, only Rs. 7.41 crore (2 *per cent*) was incurred on 'Trade Promotion'.

8.2.2 Provision for trade promotion activities

India's export performance with the country where post is located is the main criteria for allocation under 'Trade Promotion' which could be utilised for (a) Buyer-Seller Meets (b) Participation in Trade Fairs/Exhibition (c) Organising catalogue shows (d) Conducting Market Surveys and (e) Display counters for Indian goods. The DOC decided in February 2000 to reduce the establishment expenditure and increase trade promotion activities. It also decided to increase allocation for trade promotion activities substantially by increasing the overall allocations as well as by reducing the provisions for office expenses. In May 2000, the Commerce Secretary approved the criteria for allocation of funds to Missions under the head 'Office Expenses' by giving 70 *per cent* weightage to staff and 30 *per cent* to exports, while for allocation under 'Trade Promotion' 30 *per cent* weightage was to be given to staff and 70 *per cent* to the exports. However, scrutiny of records revealed that contrary to the criteria approved by the Commerce Secretary, the DOC had made allocations under these heads on the basis of previous year's expenditure and demands of the commercial wings. The allocation of funds under 'Office Expenses' and 'Trade Promotion' is given in Table 6 below:

Table 6: Allocation of funds under 'Office Expenses' and 'Trade Promotion'

(Rupees in crore)

Year	Total RE under OE & TP	Office Expenses		Trade promotion		
		Revised Estimates	Percentage	Revised Estimates	Percentage	Actual Expenditure
2001-02	10.00	6.73	67	3.27	33	1.47
2002-03	10.25	8.05	79	2.20	21	1.26
2003-04	10.50	7.76	74	2.74	26	2.04
2004-05	10.75	7.93	74	2.82	26	1.58
2005-06	9.89	6.93	79	2.96	21	1.06

A comparison of the figures of funds allocated under 'Office Expenses' and 'Trade Promotion' revealed that the funds allocated under 'Trade Promotion' with reference to the total allocation under 'Office Expenses' had decreased from 33 per cent in 2001-02 to 21 per cent in 2005-06 whereas under 'Office Expenses' the allocation had increased from 67 per cent in 2001-02 to 79 per cent in 2005-06. Thus, the allocation of funds under the heads 'Office Expenses' and 'Trade Promotion' lacked rationale. Moreover, more than 40 per cent of the funds allocated under 'Trade Promotion' remained unutilised in 38 Missions during 2001-02, 16 Missions during 2002-03, 36 Missions during 2003-04, 29 Missions during 2004-05 and 40 Missions during 2005-06 as detailed in *Annexure-II*.

Recommendations

- *The DOC needs to follow the objective criteria laid down by it for allocation of funds to the commercial wings for trade promotion activities.*
- *It should also exercise effective budgetary control and institute a sound mechanism to track the progress of expenditure.*

The DOC stated (March 2007) that the allocation of budget for trade promotion activities is done on the basis of a number of parameters like expenditure in the earlier years, demands of the commercial wings etc. and at RE stage the position is further reviewed. The reply of the DOC is not tenable because allocation of funds to the commercial wings between 'Trade Promotion' and 'Office Expenses' was not rationalised according to the criteria approved by the Commerce Secretary. The DOC also stated that the observation has been noted for future compliance.

8.3 India's trade and investment

One of the objectives of opening the commercial wings in the Indian Missions/Posts abroad was to boost export and increase/attract foreign direct investment in India.

8.3.1 Trend of India's foreign trade

During 2001-02 to 2005-06, the position of India's overall foreign trade in Rupee term with all countries and in relation to the post countries where the Indian

Missions/Posts have either full fledged commercial wings or post of local Marketing Assistant is given in Table 7 and 8 below:

Table 7: India's foreign trade

(Rupees in crore)

Year	Exports	Growth (in percentage)	Imports	Growth (in percentage)	Trade balance (Adverse)
2001-02	209018	-	245200	-	36182
2002-03	255137	22	297206	21	42069
2003-04	293367	15	359108	21	65741
2004-05	375340	28	501065	40	125725
2005-06	456418	22	660409	32	203991

Source: Web site of DGFT

Table 8: India's foreign trade with countries in which Indian Missions/Posts have commercial wings/Marketing Assistants

(Rupees in crore)

Year	Exports	Growth (in percentage)	Imports	Growth (in percentage)	Trade balance
2001-02	183537	-	163215	-	20322
2002-03	233864	27	192364	18	41500
2003-04	269616	15	239721	25	29895
2004-05	345987	28	331611	38	14376
2005-06	424089	23	422566	27	1523

Source: Web site of DGFT

Details of trade with countries having commercial wings are given in **Annexure-III**.

(i) Analysis of our trade in relation to countries where posts are located revealed that during 2002-03 to 2004-05, India's export to those countries grew in the range of 15 to 28 *per cent*. The pace of growth of import was, however, higher and it ranged between 18 and 38 *per cent*. Of the 57 countries having commercial representation, in 20 countries during 2001-02, 18 countries during 2002-03, 16 countries during 2003-04, 17 countries during 2004-05 and 19 countries during 2005-06, there was adverse trade balance. Details are given in **Annexure-IV**.

(ii) The Minister of External Affairs in June 2001 and subsequently the MEA in February 2002 directed the Missions to achieve at least 15 *per cent* annual growth in exports from India in US dollar terms. However, scrutiny of yearwise export data downloaded from the web site of the Director General of Foreign Trade (DGFT) revealed that commercial wings in 18 countries during 2002-03, 13 countries during 2003-04, 21 countries during 2004-05 and 20 countries during 2005-06 could not achieve the stipulated 15 *per cent* annual growth in export from India. Details are given in **Annexure-V**.

(iii) Though there was persistent negative balance of trade during the last 5 years with 13 countries⁵, the DOC did not review the performance of the commercial wings in these countries with reference to their objectives and achievements.

(iv) In the medium term export strategy 2002-2007, 25 countries⁶ were identified by the DOC as 'focus markets' on the basis of various criteria. However, the DOC did not consider setting up commercial wings in eight of these countries⁷. In China, Mexico, Brazil, Turkey, Israel and Argentina posts of only local Marketing Assistants were provided while in Taipei and Norway there was no commercial presence at all. On the other hand, in 12 countries,⁸ 28 India-based posts and 14 local posts were provided though these countries were not even amongst our top 65 export destinations.

Recommendation

- ***The DOC may review allocation of manpower to the commercial wings in terms of criteria like 'focus markets', quantum and balance of trade etc. and rationalise the staff on the basis of the trade prospects and actual performance.***

The DOC stated (March 2007) that the posts sanctioned in the commercial wings are in accordance with the parameters suggested by audit. However, the reply was not supported by facts. The fact remained that the DOC did not review the staffing pattern in the commercial wings and in many countries identified as 'focus markets' India did not have any commercial presence. The DOC further stated that the observations of audit have been noted for future compliance.

8.4 Compliance level of mandated responsibilities by CRs

8.4.1 Non-submission of annual action plan by the commercial wings

The MICRA provides for submission of an annual action plan by the CR within a month of the conveying of budget allotment to the Mission. The action plans were required to be scrutinized and approved by the Territorial Divisions concerned in the DOC with the objective of stretching the budget to achieve maximum results and also facilitating monitoring of the performance of the CRs. The CRs were also required to submit on an annual basis, proposals for publicity programmes for funding, where necessary.

Scrutiny of the records/information furnished by the DOC and the commercial wings, however, disclosed that none of the 25 commercial wings that were scrutinized

⁵ Australia, Belgium, Germany, Indonesia, Jordan, Myanmar, Romania, Russia, Senegal, South Africa, Sweden, Switzerland and Republic of Korea.

⁶ USA, EU, Japan, Hong Kong, China, Republic of Korea, Australia, Canada, Mexico, Switzerland, Brazil, Turkey, Poland, Chinese Taipei, Singapore, Thailand, Russia, Israel, Norway, Argentina, Indonesia, Saudi Arabia, UAE, South Africa and Greece

⁷ China, Mexico, Brazil, Turkey, Chinese Taipei, Israel, Norway and Argentina.

⁸ Bulgaria, Ethiopia, Hungary, Libya, Myanmar, Romania, Senegal, Czech Republic, Tunisia, Uganda, Serbia and Montenegro and Zambia

submitted annual action plan indicating targets to be achieved during the year or any proposal for publicity programmes to the DOC for the latter's approval. The DOC also never reminded the CRs about furnishing the action plans. Of the 25 Missions/Posts test checked, only three Missions/Posts viz. EI Moscow, High Commission of India (HCI) London and EI, Prague, were found to have prepared the annual action plan but not submitted the same to the DOC for approval. It was noticed that the plan prepared by these three Missions/Posts was approved internally and did not contain any targets that were to be achieved during a particular period. Therefore, in the absence of any annual action plan, annual targets pertaining to the trade and investment were not fixed for the CRs against which their performance could be monitored and evaluated by the DOC.

Recommendation

- ***The DOC needs to ensure that annual action plans are prepared as provided in the MICRA and submitted by the Missions/Posts. It should also evolve an effective mechanism for monitoring the performance of the CRs against the approved annual action plans.***

The DOC stated (March 2007) that the observation of audit shall be brought to the notice of all the commercial wings in the Indian Missions/Posts abroad and concerned Foreign Trade Divisions in the DOC for strict compliance.

8.4.2 Non-formulation of investment promotion activities by the MEA

The 'Distribution of work and organisation charts in the Ministry of External Affairs' required the Investment and Technology Promotion (ITP) Division of the MEA to formulate *inter-alia* strategies and programmes for the Missions/Posts for carrying out investment promotion activities abroad. However, scrutiny of the records furnished to audit revealed that the ITP Division of the MEA did not formulate any such strategies or programmes for carrying out investment promotion activities abroad. In November 2005, the ITP Division directed all Missions/Posts abroad to prepare an action plan for 2006 (i.e. country specific strategy drawn up to set and achieve targets) to strengthen economic and commercial relations with the country of accreditation. However, of the 65 commercial wings only 21 furnished their action plan for 2006 up to July 2006.

8.4.3 Non-compliance with the business development strategy elements suggested by the External Affairs Minister

The External Affairs Minister (EAM) directed in June 2001 that each Mission would fix annual target for achieving growth in trade and investment. For this purpose, on the basis of the feed back received from different Missions, a number of business development strategy elements relating to economic developments, potential for growth of service exports, liberalized visa regime for Indian professionals, business opportunities for Indian companies, strengths in high technology areas, capability in defence related products, systems or technology, special economic strategy with neighbouring countries etc. were formulated in February 2002. Each Mission was asked to furnish quarterly progress reports indicating a brief action plan

for each element to promote India's economic interests. However, out of 161 Missions/Posts including 65 Missions/Posts having commercial wings, only 50 Missions/Posts including 23 Missions/Posts having commercial wings had furnished the first quarterly report. The MEA did not have any information about the further progress made by the Missions. Thus, the MEA was not in a position to monitor the achievements of the Missions in respect of key commercial and strategic activities.

Recommendation

- ***The MEA needs to evolve an effective mechanism to ensure compliance of its instructions issued from time to time by the commercial wings and monitor the achievements made against the targets fixed for the CRs.***

8.4.4 Market research and survey

Research staff of the CRs were expected to prepare brief desk - based studies on new, non traditional and value added products of export interest to India in the post territory. These reports were to apprise the Government and business circles of the prospects of market penetration and/or export expansion. Such reports could also be got done by outside agencies, after obtaining formal approval from the DOC. Copies of the survey reports completed by the research staff of the CR and specialised agencies were required to be circulated to the territorial divisions of the DOC. These research studies and survey reports were also required to be updated periodically. Besides, market surveys and research carried out by other organisations in the post country were also to be collected and disseminated to the concerned organisations in India on request and on payment basis.

Scrutiny of records of the commercial wings in 25 Missions/Posts test checked revealed that except EI, Kuwait very few market research/surveys were conducted during 2001-06. While the commercial wing in EI, Kuwait, CGI, Hong Kong, CGI, Sao Paulo and EI, Chile conducted 35, 11, 4 and 4 market research/surveys respectively during this period, the commercial wings in the Missions at Moscow, Prague, Cairo, Washington and Nairobi conducted one or two market research/surveys. Commercial wings in 11 Missions/Posts⁹ did not conduct any market research/survey during 2001-06. EI, Warsaw, EI, Amman, CGI, New York and HCI, Colombo failed to furnish the information of market research/survey undertaken by them. The reasons furnished by nine Missions/Posts¹⁰ for their failure to undertake any or fewer market research/surveys were either paucity of staff or absence of research staff/technical expertise or large volume of work. EI, Warsaw stated (November 2006) that it was not possible to quantify the work done in this regard. Of the above 25 Missions/Posts, 12 Missions/Posts¹¹ did not furnish any reason for not conducting or conducting fewer market research/surveys.

⁹ London, Berne, Toronto, Hamburg, Frankfurt, Bucharest, Tokyo, Singapore, Abuja, Tehran and Accra

¹⁰ Moscow, London, Berne, Prague, Toronto, Tokyo, Cairo, Accra and Sao Paulo

¹¹ Hamburg, Frankfurt, Bucharest, Washington, New York, Nairobi, Colombo, Chile, Singapore, Abuja, Amman and Hong Kong

The very few market research/desk based studies undertaken by the Missions indicated that no planned efforts were being made by Missions in carrying out research studies and surveys for identifying potential areas where there was scope for growth in trade and commercial activities. The reasons furnished by the Missions/Posts for their inability to undertake such surveys/studies were also not tenable as 23 out of the 25 Missions/Posts selected for test check were operating separate commercial wings with separate budget and India-based/local staff sanctioned by the DOC exclusively for commerce related work. The remaining two Missions (Sao Paulo and Chile) had been sanctioned a post of local Marketing Assistant each to look after the commercial work. Besides, none of the Missions/Posts had taken up the matter with the DOC for hiring research agencies to undertake market research on their behalf.

Recommendation

- ***With a view to apprising the Government and business circles in India about scope of market penetration and export expansion in the Post country, the CR should identify the products of export interest to India in the Post country and set annual targets in consultation with the DOC to undertake market research/surveys in those areas.***

8.4.5 Trade fairs and exhibitions

Trade fairs and exhibitions constitute an important medium of trade promotion. India Trade Promotion Organisation (ITPO) is the nodal agency for this purpose. The Exhibitions Advisory Committee in the DOC approves proposals for participation in fairs and exhibitions abroad by the ITPO, Export Promotion Councils (EPCs) and Commodity Boards. Generally, the ITPO participates in general fairs and the EPCs/Commodity Boards in specialised fairs. The CR is required to render necessary assistance to the ITPO and the EPCs/Commodity Boards right from the stage of proposals till its completion and subsequent follow up. MICRA stipulates that after the completion of trade fairs/exhibitions, the CR would submit within one month an analytical report to the DOC/MEA/ITPO/EPCs giving his assessment, information, general impact of the participation and specific commercial opportunities identified as a result. He is also required to assess the number of trade enquiries that fructify within six months of the completion of the event and send the information to the concerned organisations/DOC/MEA in India. The details of trade fairs/exhibitions held in the Post country in which Indian companies had participated are given in ***Annexure-VI***.

Test check of records of 25 Missions/Posts revealed that except the Missions at Cairo, Tehran and Prague none of the Missions/Posts had submitted to the DOC/MEA/ITPO/EPCs analytical reports giving their assessment and general impact of the participation and specific commercial opportunities identified or assessment reports on the number of trade enquiries that had fructified. EI, Cairo in one out of eight, EI, Tehran, in two out of eight and EI, Prague in seven out of seven such cases had submitted the analytical and assessment reports. The Missions at Warsaw, Accra and Nairobi did not furnish any details in this regard. The CGI, Hong Kong stated (May 2007) that the Post prepared analytical and detailed report of all exhibitions in

which Indian companies had participated and submitted the same to all concerned. It, however, could not provide any supporting evidence.

The EI, Tehran stated (April 2007) that trade fairs/exhibitions in Iran were organised by non professional bodies and often the Mission found it difficult to mobilise participation from concerned Indian companies due to late receipt of notice from the organisers. Similarly, HCI, Singapore stated (May 2007) that hundreds of Indian companies visited these events directly and hence such details were not available. The EI, Lagos stated (May 2007) that the Indian companies/EPCs preferred the 'buyer and seller' meets to participation in trade fairs, and the ITPO, though scheduled to participate in the International Trade Fairs in Lagos, did not do so. EI, Moscow stated (December 2006) that no delegation visiting Russia to participate in the international fair/exhibition provided any general report, leave aside an analytical one. Hence, no assessment report could be prepared. It also added that without the assistance of additional trained personnel it could not ascertain the extent of trade enquiries being the actual result of such fairs/exhibitions. The reason furnished by EI, Moscow was not tenable since as per provisions of the MICRA, the CR himself and not the participant of the trade fair was required to submit an analytical report to the DOC/MEA/ITPO/EPCs and make an assessment of the number of trade enquiries that had fructified. Commercial wings at Hamburg, Frankfurt, London, Berne, Bucharest, Toronto, Washington, New York, Sao Paulo, Santiago, Cairo, Kuwait, Colombo, Tokyo, Amman and Singapore did not furnish any reason for non-submission of analytical reports and further follow up reports to the DOC/MEA/ITPO/EPCs.

Recommendation

- ***The CRs need to recommend in advance to the ITPO, EPCs/Commodity Boards about the trade fairs and exhibitions in the Post country in respect of which it is considered essential to project India's export capabilities. The CRs may prepare and submit to the DOC and the concerned ministries/organisations an analytical report as envisaged in MICRA.***

8.4.6 Trade and investment team delegations

Visits of trade and investment teams, both outward and inward are an important instrument of foreign commercial and economic contact. Based on his knowledge and experience of the post territory, the CR should make recommendations regarding visits of trade and investment delegations considered most suitable in the post country. On completion of the visit of such a delegation to the post country, its leader is expected to give the CR a brief report highlighting the areas of achievements, problems coming in the way of promoting or expanding exports of products, projects and consultancy services and the likely follow-up action. The team leader is further required to submit a detailed report within a reasonable period of time. If such reports are not received, the CR should inform the DOC. He is also required to submit a gist of such reports to the DOC and the MEA. Test check of records revealed that in 18 out of 25 Missions/Posts, neither any reports were submitted by the team leaders nor the matter was referred to the DOC by the CRs in respect of the 930 visits of the trade and investment delegations during 2001-06, as indicated in Table 9 below:

Table 9: Details of trade and investment team delegations

Sl. no.	Name of the country	Period	Number of trade and investment delegations to the post country
1	USA	2001-06	135
2	United Kingdom (UK)	2002-05*	64
3	Germany	2001-05*	60
4	Canada	2001-06	37
5	Chile	2001-06	30
6	Brazil	2001-06	29
7	Poland	2004-05*	09
8	Romania	2003-04	06
9	Egypt	2001-02 and 2003-05	31
10	Iran	2001-06	100
11	Kuwait	2003-06	23
12	Sri Lanka	2004-06	21
13	Ghana	2002-06*	33
14	Japan	2004-06*	82
15	Singapore	2001-05*	167
16	Nigeria	2002-06*	30
17	Hong Kong	2004-06*	65
18.	Jordan	2001-06	08
		Total	930

* Figures are for the calendar year.

In Romania, out of the six trade and investment delegations, brief as well as detailed reports were submitted by only two such delegations. In Iran the Mission furnished brief and detailed reports in respect of only one out of 100 delegations. The EI, Kuwait did not furnish the date of receipt of brief and detailed reports from the leader of the delegations and stated (May 2007) that the visiting delegation was usually accompanied by the embassy representatives for high level meetings. As such no separate report is submitted by most of the delegations after returning to India. The EI, Tokyo stated (May 2007) that no reports were submitted by the visiting delegations. However, embassy officers attend the important meetings with the Japanese officials and also send the report to the concerned ministries. The EI, Accra stated (May 2007) that in most of the cases reports were not received from the delegation but the Mission failed to provide the exact details of the number of reports actually received. However, the Mission stated that in future the DOC will be intimated about non receipt of the reports from the delegations. The replies of EI, Kuwait and EI, Tokyo are not tenable in view of the provisions of the MICRA.

Recommendation

- *The CRs need to recommend to the Government, trade promotion agencies, associations of trade and industry etc. about trade and investment delegations considered most suitable to the Post country. On completion of the visit of the delegations, the CRs may insist on detailed report from the team leaders.*

8.4.7 Trade disputes

Trade disputes are part and parcel of international trade. Availability of procedures for quick and smooth settlement of disputes through conciliation or arbitration builds confidence of the overseas businessmen. The CR, thus, has the responsibility to create awareness in the post territory that effective machinery for settlement of trade disputes exists in India. The role of the CR is that of a catalyst leading to amicable settlement, through conciliation, failing which he has to guide the parties involved in the dispute to approach the arbitration machinery available locally or in India. Table 10 below indicates the details of trade disputes reported to the Missions/Posts and pending/settled during 2001-06:

Table 10: Details of trade disputes pending settlement

Sl. no.	Name of the Mission/Post	Trade disputes received	Trade disputes stated to be settled	Comments
1	CGI, New York	811	Not furnished	No information of the trade disputes settled was available with the Mission.
2	EI, Washington	112	112	Disputes were treated as settled by simply sending a letter to the concerned parties requesting them to settle the disputes amicably. There was no follow up and the Missions were not aware of the final status of the disputes.
3	CGI, Sao Paulo	9	5	
4	EI, Chile	21	08	Trade disputes received upto 2004 had been settled.
5	CGI, Toronto	Not furnished	Not furnished	The Mission stated (December 2006) that the Canadian Government does not interfere in trade disputes between private parties and efforts were made to settle the disputes amicably failing which parties were advised to take legal action. However, the Mission did not furnish the number of trade disputes received and settled by it during 2001-06.
6	EI, Riyadh	178	140	Out of 178 trade disputes received during 2001-02 to 2005-06, only 140 trade disputes were resolved and 38 trade disputes remained pending.
7	CGI, Sydney	87	Nil	87 trade disputes received during 2001 to 2005 were pending settlement. The Mission stated (May 2006) that the status of the pending cases was not known as the parties involved in the cases rarely informed the settlement status.
8	EI, Warsaw	16	Not known	These trade disputes were reported during 2003-05. The Mission stated (November 2006) that all the cases of trade disputes reported were attended to and all possible efforts were made for amicable settlement between both the parties. The Mission further stated that most of those cases were believed to be settled since they did not hear further from any party. The reply of the Mission suggests that there was no follow up of trade disputes reported to the Mission.

Sl. no.	Name of the Mission/Post	Trade disputes received	Trade disputes stated to be settled	Comments
9	HCI, Dar-es-salaam	14	Nil	14 trade disputes received during 2003-05 were pending settlement. The Mission stated (May 2006) that it had no means to settle trade disputes because in many cases the business deals were conducted through family contacts in India without legally enforceable contracts.
10	EI, Moscow	12	Nil	Out of 12 trade disputes, five were reported by Indian companies against the buyers from Russia and seven were reported by Russian companies against Indian buyers. All these cases reported between May 2002 and May 2003 were pending settlement. Though the Mission had initially taken up these disputes with the appropriate authority/concerned party but there was no follow up thereafter and no action was taken by the Mission after 2003 in most of the cases.
11	HCI, London	8	Nil	The trade disputes were received between 2001-02 and 2005-06 (five against UK firms and three against Indian firms). Out of these, in one case the supply order had been executed and in another case the CR had written to the defaulter for settlement. Action taken in respect of the remaining cases was not reported by the Mission.
12	EI, Libya	07	Nil	Despite the decision taken in the 9 th Session of the Indo-Libyan Joint Commission meeting held in November 2004 at Tripoli to settle the outstanding financial issues in a friendly manner by 31 st March 2005, claims of 13.129 million Libyan dinars pertaining to seven Indian companies, which were more than 15 years old, were pending settlement as of April 2006.
13	EI, Prague	Not furnished	Not furnished	The Mission stated (January 2007) that there were some trade disputes, which pertained to late deliveries, not conforming to the orders, payments delays, banking difficulties etc. The Mission further stated that big disputes between Czech and Indian companies were reported to the DOC and finds mention in all bilateral interactions.
14	EI, Cairo	123	Not known	The Mission stated (April 2007) that the commercial wing of the Mission referred the trade dispute to the concerned Indian or Egyptian company asking them to settle the matter amicably in accordance with the agreement and was not always kept informed after the disputes were settled.
15	EI, Tehran	95	10	In most of the cases, the Mission had not pursued the matter further after forwarding them to the concerned parties.

Sl. no.	Name of the Mission/Post	Trade disputes received	Trade disputes stated to be settled	Comments
16	HCI, Colombo	83	08	The Mission furnished information in respect of trade disputes reported to them during 2004 and 2005 only. Out of the 83 trade disputes reported, about 90 per cent were pending settlement as of April 2007.
17	EI, Kuwait	114	53	20 disputes were stated to be settled. However, out of the remaining 94 cases, 33 were presumed to be settled by the Mission, as there was no communication from the parties involved in the dispute.
18	EI, Tokyo	Not furnished	Not furnished	The Mission could not provide any information on the number of trade disputes received and settled. The Mission, however, stated (May 2007) that it plays the role of a facilitator in trade disputes by acting as an interface between the disputing parties and by referring the matter to the concerned organisations in the respective countries.
19	CGI, Hong Kong	17	2	Out of 17 trade disputes received during 2004-06, two disputes were settled, three were sub-judice in the court of law, whereabouts of the companies were not known in respect of four cases and the Consulate was pursuing the remaining eight cases with the concerned parties.
20.	EI, Amman	35	28	Out of seven outstanding trade disputes, the Mission did not receive any further communication from six firms. In respect of one case, the Indian company fled.

It would be seen from the above that no tangible contributions were made by most of the Missions to settle the trade disputes and majority of the disputes were treated as settled by simply sending a letter to the concerned parties which indicated poor follow up and lack of monitoring on the part of the Missions.

Recommendation

- *The CRs need to ensure maintenance of proper records showing the trade disputes reported to them and action taken for their settlement. The DOC/MEA needs to be kept informed about the status of the trade disputes pending settlement. The Missions/Posts may also take up long pending disputes with their counterparts in bilateral meetings.*

8.4.8 Business Centres

In accordance with the announcement made in the Exim Policy 2002-07 by the Commerce and Industry Minister, the DOC decided in June 2002 to set up Business

Centres in Commercial Wings of 23 selected Missions¹² abroad. These Business Centres were to provide facilities of meeting rooms, and office equipment to the visiting Indian exporters/businessmen at nominal cost. These Centres were to be made functional by utilising the existing infrastructure and funds were to be provided only in exceptional circumstances, after approval of the DOC. These Centres were proposed to be run on no profit no loss basis and the Missions were required to submit to the DOC a quarterly report on the number of visitors to the Business Centres, the actual expenditure incurred and the amount received as service charges.

None of the Missions where Business Centres were set up were submitting the quarterly reports in respect of income received from Business Centres and the number of visitors visiting them. The DOC also did not monitor the functioning of these Centres. It did not even have the details of the number of Missions in which these were fully functional. Scrutiny of records of the Missions selected for test check revealed that out of the 25 Missions, 11 Missions¹³ were required to set up Business Centres. Out of these 11 Missions, Business Centres had actually been set up in only four Missions viz. London (2002-03), Moscow (July 2002), Frankfurt (December 2006) and New York (January 2003). The Business Centre at New York was functional up to 31 March 2007 and thereafter, the facilities were discontinued from 1 April 2007 due to advancement in technologies and greater usage of internet and e-mail facilities.

In order to undertake a performance appraisal of the Business Centres, the DOC requested the Missions in March 2005 to provide information about the number of visitors using the centre and the facilities available and being provided to them. No information was, however, furnished by the concerned Missions/Posts to the DOC. The scheme remained limited to the initially selected 23 Missions and could not be extended to other countries even after more than four years of the initial decision.

8.5 Monitoring and evaluation

8.5.1 Reporting System

Commercial reports are tools that provide useful inputs to the Government for policy making and giving directions to the foreign trade. The CRs were required to send economic and commercial information in the form of monthly reports by the 15th of the succeeding month and an annual report after the close of the financial year, but not later than 30th May every year to the territorial divisions in the DOC and the MEA with copies to other concerned ministries/organizations. While the monthly reports intended to provide information on matters of topical interest, the annual reports sought to provide a qualitative long-term analysis of trade and economic issues including bilateral aspects.

¹² New York, Houston, Chicago, San Francisco, London, Tokyo, Abu Dhabi, Hong Kong, Riyadh, Tel Aviv, Moscow, Beijing, Toronto, Mexico City, Sao Paulo, Singapore, Johannesburg, Frankfurt, Rome, Paris, Brussels, Dhaka and Colombo

¹³ Frankfurt, London, Moscow, Tokyo, Hong Kong, Singapore, Johannesburg, Colombo, New York, Toronto and Sao Paulo

Test check of 25 Missions/Posts, however, revealed that none of the Missions except Sao Paulo, Tokyo, Amman and Tehran were submitting monthly commercial reports to the DOC/MEA and related organisations regularly. While the Missions at Berne and Moscow did not submit monthly commercial reports at all, Missions at Warsaw, Prague, Kuwait and Posts at Hamburg, Singapore, Hong Kong, Colombo and Toronto stated that they were furnishing the monthly commercial reports to the DOC regularly but did not provide complete details thereof. The Missions/Posts at Frankfurt, London, Abuja, and Washington were not submitting monthly commercial reports regularly while Missions/Posts at Accra, Cairo, Nairobi, Bucharest, Chile and New York did not furnish any information in this regard. As regards annual reports, while Missions/Posts at Sao Paulo, Tehran, Abuja, Moscow, Frankfurt, Amman and London had submitted the annual reports regularly, EI, Washington stated to have submitted the annual reports as and when the need arose. The remaining Missions did not furnish the details regarding submission of annual reports to the DOC and other related organisations.

8.5.2 Monitoring System

8.5.2.1 Monitoring by the DOC

In order to check the regularity in receipt of commercial reports and action taken on these reports by the Department, monthly commercial reports for the years 2001-02 to 2005-06 in respect of the 25 selected commercial wings were requisitioned. However, the concerned territorial divisions of the DOC could furnish only 22 monthly reports for the year 2005-06 (*7 per cent*) against 300 such reports supposed to be maintained by the divisions. Further, FT-CIS Division could furnish only one annual report on Moscow against 12, FT-Africa Division could not furnish any report against 48, FT-Latin American Countries Division could furnish 10 reports against 24 and FT-Europe Division could furnish only one report against 84. These reports were neither being analysed nor any periodical review of the performance of the commercial wings was being undertaken.

On the matter being pointed out by audit, FT-CIS Division of the DOC stated (December 2006) that these commercial reports were being studied and analysed and these formed the basis of discussions during various bilateral meetings held annually for promoting bilateral trade with Russia. FT-Africa Division stated (December 2006) that these reports were analysed as and when they were received. FT-Europe Division stated (December 2006) that the Missions/Posts in Western Europe were keeping the Division informed about their activities round the year. FT-Latin American Countries Division stated (January 2007) that the economic and trade statistics/information furnished by the CRs was used to have updates on the present economy of the post country, hence, no monitoring/review was necessitated. The lack of importance attached to the monitoring of commercial wings in the territorial divisions of the DOC could be seen from the fact that only a paltry number of monthly commercial reports could be traced in these divisions and neither any study nor analysis of these reports was conducted. Moreover, study and analysis of monthly commercial reports of such a small volume may not be complete and useful.

8.5.2.2 Monitoring by the MEA

Test check of the commercial reports for the years 2004-05 and 2005-06 in the MEA in respect of the 25 Missions revealed that of the 600 monthly commercial reports required to be submitted by these Missions, only 115 (19 *per cent*) reports were received in the MEA. On the matter being pointed out by audit, the MEA stated (January 2007) that commercial reports were primarily meant for formulating policies related to trade which was being drawn up and implemented by the Ministry of Commerce. However, these reports were studied and inputs were given by the ITP Division while formulating investment and technology policies for the country. Concerned territorial divisions of the MEA also made use of these reports while deciding on bilateral relations with other countries. The MEA added that it was not feasible to act upon these reports on a monthly basis.

Incidentally, the DOC and the MEA acknowledged in September-October 2006 that not much use of the commercial reports was being made since these reports differed in quality and content and did not contain useful economic inputs for the purposes of analysis. Consequently, in order to enhance the utility and effectiveness of the commercial reports, the MEA in consultation with the DOC decided to introduce (November 2006) a new format of reporting. The new format was to be implemented from January 2007.

Recommendation

- ***The DOC and the MEA may ensure regular submission of the prescribed reports and returns, which is a very important management tool to watch the proper implementation of the Government's economic policies and programmes.***

The DOC stated (March 2007) that the commercial wings would be requested to send the prescribed reports to the concerned foreign trade divisions and they will be requested to keep a close watch on the same.

9. Internal controls

Internal controls are designed to provide reasonable assurance about the achievement of the objectives of an entity effectively, efficiently and economically.

In the preceding paragraphs, the deficiencies in the functioning of the commercial wings of the Indian Missions/Posts abroad noticed by audit include non-restructuring of the commercial wings keeping in view the changing international trade scenario, non-compliance with the provisions of the MICRA in discharge of their duties by the CRs, non-maintenance of the records by the DOC relating to the expenditure incurred and staff actually deployed in the commercial wings, etc. Non-reconciliation of the expenditure as reported by the commercial wings to the DOC and that shown in the accounts compiled by the Chief Controller of Accounts, Ministry of Commerce and Industry on the basis of the information furnished by the Principal Chief Controller of Accounts, MEA resulted in difference in the two sets of figures maintained by the DOC and the MEA. The MICRA which guides the CRs in

discharge of their duties and responsibilities was revised by the Ministry of Commerce in May 1998. Thereafter it has not been further revised keeping in view the rapid economic development, economic reforms and emergence of multilateralism in global trading regime. These deficiencies are indicative of weaknesses in internal control system resulting in deficient management of commercial wings in the Indian Missions/Posts abroad on the part of both the DOC and the MEA.

10. Duality of control

As would be seen from the preceding findings, the DOC provides funds to the commercial wings and sanctions manpower required for these wings. The India based posts in these wings are filled by the MEA except some posts manned by the DOC's cadre. As CRs work on behalf of the DOC, they are required to submit periodic reports and returns to the DOC as well as to the MEA. As per the provisions of the MICRA, the CRs were required to submit annual action plan to the DOC for their approval, submit assessment reports on the impact of trade fairs/exhibitions, reports on follow up on the trade and investment delegations, trade disputes etc. The DOC and MEA issues instructions to CRs quite often without consultation with each other. The concerned foreign trade divisions in the DOC were supposed to monitor the performance of the commercial wings. But due to duality of control, these wings neither regularly submitted reports and returns to the DOC or MEA nor there was any effective monitoring of their performance at the level of either Ministry. Thus, there is a pressing need to delineate the responsibility and control of both the Ministries to ensure accountability and action upon deficient performance of the commercial wings.

11. Response of the Ministries

The draft report on Performance audit of Commercial Wings in the Indian Missions/Posts abroad was sent to the Secretaries of both MEA and DOC in March 2007 for verification of facts and figures as well as their comments on the audit findings and recommendations. The DOC has broadly accepted the recommendations of audit and their reply has been appropriately included in this report. The reply of the MEA has not been received despite a reminder.

12. Conclusion

The commercial wings in the Indian Missions/Posts abroad were not restructured keeping in view the fast changing international trade scenario which resulted in inadequate commercial presence in many countries which have emerged as thrust markets such as China, Mexico, Brazil, Turkey, Chinese Taipei, Israel, Norway and Argentina etc.

The CRs in the commercial wings abroad approached their responsibility towards promotion of trade and investment of India and tapping the market in the post countries in an unplanned and unsystematic manner as is evident from their failure in preparing the annual action plans and conducting planned market research/surveys. The CRs attitude towards assessing the impact of participation by India in trade fairs/exhibitions in the post countries and

identifying the problems coming in the way of promoting and expanding Indian exports through reports of the trade and investment delegations from India was lackadaisical. Large numbers of trade disputes pending in different countries where there are CRs in Missions/Posts indicated that the role played by the CRs in their settlement was inadequate and ineffective.

There was absence of proper monitoring mechanism in the DOC and the MEA to monitor the performance of the commercial wings. The performance of these wings was seldom evaluated either by the DOC or MEA during the period of audit. The crux of the problem was duality of control of the DOC and MEA over the commercial wings resulting in lack of accountability of either ministry for the commercial wings.

New Delhi
Dated

(A.K. THAKUR)
Director General of Audit
Central Revenues

Countersigned

New Delhi
Dated

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India