# Executive Summary

## About this Performance Audit

Performance Audit on the Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) was conducted to seek an assurance on the success of facilitation measures introduced for simplifying the process of issuance of scrips and to examine effective linkage of rules and procedures of the Schemes in Director General of Foreign Trade (DGFT) Electronic Data Interchange (EDI) system.

This audit covered analysis of pan-India data received from DGFT for the period April 2015 to October 2018. It was noticed that 5,94,653 (5,84,650 MEIS and 10,003 SEIS) scrips amounting to ₹76,416 crore were issued by 38 Regional Authorities (RAs) and Nine Development Commissioners (DCs) of SEZs. In view of prevalent manual processes, a sample of 25 RAs (66 per cent of total RAs) and seven DC offices (77 per cent of total DC offices) was selected for this audit. These 32 units covered 5,53,726 (5,43,803 MEIS and 9,923 SEIS) scrips (93.12 percent) amounting to ₹72,743 crore (95.19 percent).

Further, in these selected units, 6,205 Scrips (5747 MEIS Scrips and 458 SEIS Scrips), representing 1.7 per cent of the total scrips in these units, were selected for detailed examination. Audit also selected Customs field offices from where exports relating to these sampled scrips were effected**.** Results of data analysis carried out on Pan-India data were suitably included in the report along with audit findings based on examination of the scrips selected for detailed examination.

## Structure of the Report

This report is divided into three chapters. Chapter 1 presents an overview of both the schemes along with the Audit Objectives, Scope, Sample, Audit Criteria and Audit Methodology used for conducting this Performance Audit. Chapter 2 presents Audit Findings, Conclusions and Recommendations relating to gaps in integrating the policy and procedures of the schemes with the automated module, observed during analysis of pan-India data and key features of automation. The fact that many of the intermediate procedures were still being handled manually, necessitated test checks in selected units to examine the manual checks exercised by the RAs and DC offices. The Audit Findings, Conclusions and Recommendations relating to manual scrutiny in the randomly selected samples in the selected units are presented in Chapter 3. As some of the audit findings are based on test check, there is every likelihood that such errors of omission and commission might exist in other cases also.

Department may therefore, check all the remaining transactions also on the lines of audit findings reported and take appropriate corrective action.

This report has 48 Audit paragraphs with a revenue implication of ₹364.32 crores. Of these, 44 observations involving a money value of ₹233.02 crore have been accepted by the department and recovery of ₹7.82 crore has been reported till date in respect of seven observations. Four paras amounting to ₹131.30 crore have not been accepted by the department. Similarly, eight of the total 14 recommendations made in the report, have been accepted.

Responses received from Department of Commerce (September 2019/March 2020) and Department of Revenue (October 2019/March 2020) have been included in the report.

Chapter-wise summary is given below:

### Chapter 1: Overview of Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS)

The MEIS scheme was introduced in Foreign Trade Policy (FTP) 2015-20 by merging five earlier schemes[1] and SEIS by replacing Served from India Scheme (SFIS) with effect from 1 April 2015.

An analysis of scrips issued under MEIS and SEIS revealed that there was a steady increase in the number of scrips during Financial Year (FY) 2016-17 (23.51 per cent), FY 2017-18 (20.42 per cent) and FY 2018-19 (32.12 per cent), though there was a decrease in the number of scrips in the initial year of introduction of the schemes, FY 2015-16.

**(Para 1.2)**

Analysis of MEIS claim for export of commodities under different sections of Custom Tariff during the period 2015-16 to 2017-18 revealed that the claim of MEIS registered growth under all sections of custom tariff. The average percentage of export claimed under MEIS increased from 11.83 percent in 2015-16 to 52.93 percent in the year 2017-18.

Audit observed that MEIS claims under Chapter 15 (Animal or vegetable fats and oil) and Chapter 71 (Pearls, precious stones / metals, gems and jewellery) during the year FY 2016-17 and FY 2017-18 were negligible when compared to their corresponding export volume.

**(Para 1.3.2)**

[1](1) Focus Market Scheme (FMS), (2) Focus Product Scheme (FPS), (3) Vishesh Krishi Gram Udyog Yojana (VKGUY) (4) Market Linked Focus Product Scheme (MLFPS) and (5) Agriculture Infrastructure Incentive Scrips

To promote rural and small scale industries, Government provided (November 2017) enhanced MEIS rates to handloom and handicraft products. Still a significant 70 per cent of handicraft items being exported remained outside the ambit of MEIS despite higher MEIS rates made applicable to this sector. Similar analysis under handloom category revealed that value of export claimed under handloom export for MEIS reward increased from 15.52 per cent in FY 2015-16 to 60 per cent in FY 2017-18, with nearly 40 per cent of export being out of MEIS reward.

**(Para 1.3.3)**

## Summary of Audit Findings

### Chapter 2: Systemic issues in Implementation of MEIS and SEIS

The substantial delays in issue of MEIS and SEIS scrips indicated failure of the automated system in achieving the objective of simplification of procedures and ease of doing business.

**(Para 2.1 and 2.8)**

The system developed for MEIS was an electronic system which required manual intervention. Manual verification of arithmetical accuracy calculated by Information Technology (IT) system should not be required if the system has been properly programmed. Besides leading to wastage of manpower, the deficiencies in automated system have also resulted in delaying the whole process and avoidable physical interface and discretion in the hands of authorised officials regarding checks to be exercised as discussed in Chapter 3, thereby defeating the scheme objectives.

There were deficiencies in MEIS module in calculating scrip values and “Late Cut” which were attributed to programming bugs by DGFT. The delays in updating the system resulted in incorrect adoption of foreign exchange rates. The MEIS module also did not restrict grant of benefits on ineligible export proceeds realised in INR. Further, the system did not enforce conditions and checks prescribed in the scheme regarding utilization of Shipping Bills (SBs) in more than one Licence and Jurisdictional Provisions.

**(Para 2.2 to 2.5 and 2.7)**

The extension of MEIS benefits to E-commerce exports amounting to ₹5.52 crore was delayed by almost four years due to delay in amending the regulations and operationalization of E-commerce module.

**(Para 2.6)**

To mitigate the risk in the automated system, Risk Management System (RMS) was designed so that sample files would be checked post rewards in order to ensure that only eligible exporters claimed the rewards. However, following deficiencies were observed in RMS:

- The non-implementation of RMS for MEIS and SEIS for the period from April 2015 to December 2017 was in contravention of policy provisions and left a key risk control measure unattended for more than two years.

  **(Para 2.9)**

- The system granted reward on entire export proceeds realised without excluding inadmissible components viz., Commission, Insurance and Freight (CIF) charges.

  **(Para 2.10.1)**

- The system failed to prevent excess grant of rewards due to misclassification of products and granted higher rates applicable to handloom products.

  **(Para 2.10.2)**

- The validation controls in the MEIS module did not restrict grant of incentives to exports under Minimum Export Price (MEP) regime and exporters claimed benefits by wrongly quoting Indian Trade Clarification/Harmonised System (ITC-HS) in their SBs. Non-implementation of RMS designed to flag such ineligible/restricted items led to excess claim of credits remaining undetected.

  **(Para 2.10.3)**

## Chapter 3: Results of Test Check Based on Sampling in View of Manual Processing

The substantial delays in issue of MEIS scrips were due to incomplete system driven checks necessitating manual intervention. No clear instructions were issued to field level RAs about the extent of checks required for issuance of MEIS scrips. RAs ended up checking divergent issues. Despite having a system driven approval mechanism, RAs were checking issues like correctness of "Late Cut". Manual verification of arithmetical accuracy calculated by IT system was necessitated as the system was not properly programmed as detailed in chapter 2. In view of such a deficient electronic system, it is not difficult to understand why RAs have been carrying out checks which were supposed to be system-driven.

**(Para 3.1)**

Test check also revealed failure of systemic controls in MEIS leading to incorrect grant of reward even though declaration of intent to claim reward was not given/unavailable in SBs, grant of higher rates applicable to handloom products and incorrect utilization of scrips.

**(Para 3.2.1 to 3.2.5)**

The exporters got rewards in cases where the services were misclassified though actual services rendered were not specified in Appendix 3D and benefits amounting to ₹172.72 crore in respect of these services were granted by 7 RAs in 37 cases, by placing reliance on Chartered Accountant (CA) certificates.

**(Para 3.3)**

The self-declarations and CA certificates were insufficient to provide assurance about eligibility of services and remittances for grant of rewards under SEIS. However, department relied heavily on these self-declarations and CA certificates for granting rewards. RAs failed to distinguish between eligible (Mode 1 & 2) and ineligible (Mode 3 & 4) services and to segregate and deny rewards to ineligible services resulting in excess rewards of ₹57.52 crore to 13 service providers in contravention to extant provisions. Errors in claims amounting to ₹40.47 crores were noticed in 62 cases due to incorrect self-declarations and CA certificates. Excess issue of rewards amounting to ₹13.02 crores was noticed in 34 cases due to incomplete checks by RAs and system.

There was lack of clarity in SEIS provisions for port services as to how the actual service providers would get the benefit when they were not directly providing service to foreign consumers.

**(Para 3.4 to 3.6)**

Condition of effecting exports through specified ports in Customs Notification (16 of 2015 dated 1 April 2015) for allowing exemption of import duties for goods imported against SEIS scrips is not consistent with SEIS provisions.

**(Para 3.7)**

Exporters declared different nature of services in SOFTEX returns and SEIS claims for the same export. These could have been checked by the DC offices before issue of scrips, which was not done.

**(Para 3.8)**

No guidelines were issued by DGFT to RAs regarding checks to be exercised as part of due scrutiny before sanctioning SEIS and there was no uniformity in procedure being followed for processing SEIS claims across RAs or DC offices.

**(Para 3.9)**

Audit could not find evidence of systematic monitoring on the performance of the RAs by the DGFT. DGFT stated that delays in processing of MEIS / SEIS applications were monitored through JASPER reporting module. However, there was no monitoring of scheme implementation and overall performance of RAs. Periodic evaluation of the scheme would have helped in ensuring that scheme objectives were being met and also for mid-course correction in case of any deficiencies. Mid-term review of FTP done by the Department of commerce was silent on effect of SEIS on service sector exports. Performance of the schemes in terms of achievement of goals was not assessed by DGFT.

**(Para 3.10 and 3.11)**

Nothing was found on record to establish that grievance redressal system existed in the online module of MEIS/SEIS and that any pendency analysis of MEIS/SEIS grievances had been done so far by DGFT.

**(Para 3.12)**

## Recommendations

1. *Given the Government's endeavour to shift to e-governance and the vast experience gained by DGFT in automation, it must be ensured that entire system of administration of Foreign Trade Promotion schemes is automated by rolling out fool proof system, duly mapped to Scheme provisions and also leveraging information already available in linked / base systems such as ICES, SEZ online etc., so that it becomes Single Source of Truth.*
2. *DGFT should review the procedure of granting MEIS/SEIS scrips and lay down appropriate checklist for grant of scrips both electronically and in manual environment.*
3. *Risk Management System (RMS) be strengthened by plugging the loopholes and leakages in the automated system on issuing of scrips. Appropriate policy framework and system alerts need to be put in place making it mandatory for exporters to declare Commission, Insurance and Freight (CIF) and for DGFT to check the correctness of self-declaration of exporter/applicant in select cases earmarked by the system.*
4. *The audit findings on excess grant of incentives reported in chapter 3 were based on test check done on sampled cases using random sampling, in view of the prevalent manual verification. There is every likelihood that such errors of omission and commission might exist in many more cases. Department may check all the remaining transactions also on the lines of audit findings reported in Chapter 3.*

5. *To prevent scope of misclassification of power loom products under Handloom category, the distinction between power loom and handloom process may be clearly specified.*
6. *To avoid ambiguity and to bring in more clarity on eligible services, DGFT may consider insisting for CA certificate on exact classification of service with* Central Product Classification *(CPC) code and the Mode under which it falls, rather than simply stating the serial number of the list of eligible service. Suitable clarity regarding the codes and the modes available for scheme benefits and penal provisions on the shortcomings found in applicant's declarations and CA certificates may be brought in the system. Responsibility of CAs must also be clearly defined and failure on their part be reported to appropriate authority.*
7. *DGFT may issue clear instructions to RAs about basic checks required before issuing SEIS scrip. Invoking penal provisions may be made mandatory on shortcomings found in applicant's declarations and CA certificates.*
8. *DGFT should provide clarity in the policy and procedures on segregation of four types of services. Applicants' declarations and CA certificates on classification of services should be reviewed to address the distinction of services.*
9. *DGFT may devise mechanism in respect of port services so that the intention of granting rewards to actual service providers are protected against claims of aggregator of services and the conditions of exemption in Customs Notification may be drawn in sync with the provisions of the SEIS scheme.*
10. *The classification of services by various agencies (DGFT, Reserve Bank of India (RBI), Customs etc.) needs to be aligned to the* Central Product Classification *(CPC) code of UNSD to avoid any misuse of incentives which is based on CPC codes.*
11. *A mechanism must be put in place to ensure that Jurisdictional Development Commissioners verify the validity of classification of service being reported by the service providers to different authorities (DGFT, RBI, Customs etc.) for the same exports.*
12. *RAs should insist for SOFTEX forms, which was a mandatory declaration under Foreign Exchange Management (Export of Goods and Services) Regulations 2000 for supply of services through data links, in cases where the services were classified/declared under Mode-1 category.*
13. *For ease of doing business, we recommend that the DGFT may consider an inbuilt system for grievance redressal. The analysis of the same can be used as feedback mechanism for improving the scheme. Monitoring of the schemes on such parameters viz. time taken to process claims, RMS*

*scrutiny etc. could be done to assess the performance of RAs in implementing the scheme.*

14. *We recommend that DGFT may consider commissioning a midterm evaluation study of the achievements of any such schemes introduced vis-à-vis the main objectives of the scheme.*

DGFT accepted all the recommendations except four (2, 9, 11 and 14) and response in respect of two (1 and 4) recommendations is awaited.

On reviewing of procedure for issuing of SEIS Scrips and checklist thereon **(Recommendation 2)**, it was stated that policy and procedural provisions were already in place and issuing checklist for already existing provisions though useful, also would give an undesired leeway to the licensing authorities, which might consider the fulfilment of checklist itself as enough for the correctness of the claim. Audit reiterates that an Standard Operating Procedure (SOP) or a detailed checklist for the RAs, would ensure that all the basic checks are being adhered to uniformly by the RAs, besides streamlining the overall pendency of claims.

On "Port Services" **(Recommendation 9),** DGFT stated that the service was rendered at the port but since it was made to a foreign liner, it would fall into the category Mode 2 and Rupee payment for such services were eligible for rewards. The reply did not address issue raised by audit in the recommendation, which was about mechanism to have a distinction between rewards due to service providers and aggregators.

On Jurisdictional Development Commissioner verifying the classification of service being reported by the service providers to different authorities **(Recommendation 11),** it was stated that verification of reporting of services from multiple organizations, which follow different reporting formats for the same kind of services would make the Scheme non-implementable. Audit's recommendation was not with reference to reporting format but with a mechanism to ensure uniformity in classification used for reporting of same services to different agencies.

On commissioning a midterm evaluation study of any such schemes **(Recommendation 14)**, it was stated that FTP 2015-20 was expected to sunset from 31 March 2020, therefore a Mid-term evaluation might not be feasible. Audit recommendation was generic as periodic evaluation of schemes would ensure that its intended objectives were being met besides providing for mid-course corrections in case of any deficiencies.