

Executive Summary

India's exports have picked up in the recent years which rose by 15 per cent (CAGR) against global export growth of 5 per cent, with our share in global exports moving up from around 0.5 per cent in 1992 to 1.4 per cent in 2013. However, imports have been rising faster, driven largely by the demands of a growing economy. With the result, the trade balance has been widening and in 2004-05 the current account balance turned negative and has remained in the deficit ever since. This has important implications for price stability and economic growth.

Experts in Government and in Public Policy research, have near unanimity in prescribing reduction in transaction cost; strengthening of trade facilitation; negotiating preferential access to prospective markets; attracting long term investment, and modern technology with a matching reward and incentive trade environment.

Duty Entitlement Pass Book (DEPB), as an incentive scheme was notified vide circular no. 10/1997 dated 17 April 1997. The DEPB scheme substituted the Value Based Advance Licencing (VABAL) scheme and the Pass Book scheme of the earlier Exim policy. This scheme initially consisted of two sub-schemes, viz 'Pre-export DEPB' and 'Post-export DEPB'. The pre-export DEPB scheme was abolished with effect from 1 April 2000. After several extensions through the years, the post-export scheme was phased out on 30 September 2011 and thereafter DEPB items were incorporated into the Duty Drawback Schedule with effect from 1 October 2011.

Audit came across policy implementation issues and cases of operational malfunction, both in the manual as well as the EDI environment, in 28 RAs, seven SEZs and 31 Customs Ports. This was aggravated by a weak Internal audit system. The coordination between DGFT, Customs and RBI required more attention. DEPB credits were not related to the actual incidence of duty and despite earlier C&AG reports the scheme implementation was mired in familiar policy misinterpretations and malfunctions. DGFT has not carried out any outcome assessment of the efficacy of the scheme with regard to its performance nor had a revenue impact assessment of the import duty neutralisation before implementing the scheme.

Audit recommended impact or outcome studies of schemes by DoC/DoR by taking into account the intertwined components of scheme-based rewards and incentives and FTA based incentives to the

exporters/importers and manufacturing exports to draw the complete picture. Such statements may serve the purpose better as a part of the FRBM disclosure in the Receipt budget of the Union Government.