

## CHAPTER I

### **Overview of Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS)**

The Foreign Trade Policy (FTP) 2015-20, launched on 1 April 2015, provides a framework for increasing exports, generating employment and increasing value addition in the country with 'Make in India' vision. The focus of the new policy is to support both manufacturing and services sectors, with special emphasis on improving the 'ease of doing businesses'.

A major initiative towards simplification under the FTP was introduction of two new schemes namely Merchandise Exports from India Scheme (MEIS) by merging five earlier schemes<sup>2</sup> and Service Exports from India Scheme (SEIS) by replacing Served from India Scheme (SFIS) with effect from 1 April 2015.

#### **1.1 The Schemes**

##### **(i) Merchandise Exports from India Scheme (MEIS)**

MEIS has been introduced to promote export of notified goods manufactured/produced in India. The scheme aims to rationalise the incentives by bringing more and more products under its ambit so as to make a larger number of Indian products competitive in the international market. MEIS, which began with 4914 tariff lines, currently covers 8315 tariff lines.

Scripts under the MEIS scheme are issued at varied rates fixed for different countries ranging from 2 per cent to 10 per cent of the Free on Board (FOB) value of exports. The incentives issued as duty scrips can be used for payment of a number of duties/taxes including the customs/ excise duty/ service tax/Goods and Service Tax (GST).

Major product groups covered under MEIS are: Agricultural and Village Industry products, Pharmaceutical products, Textile and Garments, Electrical and Electronics products and automobiles.

##### **(ii) Service Exports from India Scheme (SEIS)**

SEIS is an incentive scheme for eligible service exports offering reward at 3 per cent or 5 per cent of Net Foreign Exchange (NFE) earned. Services rendered under two modes viz. services exported out of India and services provided to a foreign consumer in India are eligible for SEIS. This scheme covers 'Service

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<sup>2</sup>(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

Providers located in India' instead of 'Indian Service Providers', which has been the case in the earlier policy. Under the new scheme, the incentive scrips issued are fully transferable. SEIS benefits have also been extended to Special Economic Zones (SEZ) units.

## 1.2 Statistical Overview

Analysis of rewards provided to export of goods and services in the past five-year period from Financial Year 2014-15 (FY 15) to FY 19 revealed that amounts forgone in the form of incentive scrip increased from ₹19,031 crore to ₹44,305 crore. The pro-rata tax expenditure for earning of foreign exchange under MEIS and earlier schemes came down to 3.14 per cent in FY 19 from 3.15 per cent in FY 15. Pro-rata tax expenditure for SEIS Scheme could not be worked out as details of SEIS Scheme (Scrips, duty credit and FOB value of exports) for FY 16 and earlier scheme (SFIS) were not given in Director General of Foreign Trade (DGFT), Management Information System (MIS) Report. Number of scrips issued also increased from 1.82 lakh in FY 15 to 3.09 lakh in FY 19, as shown in **Table 1** below:

**Table 1: Details of Rewards awarded during FY 15 to FY 19**

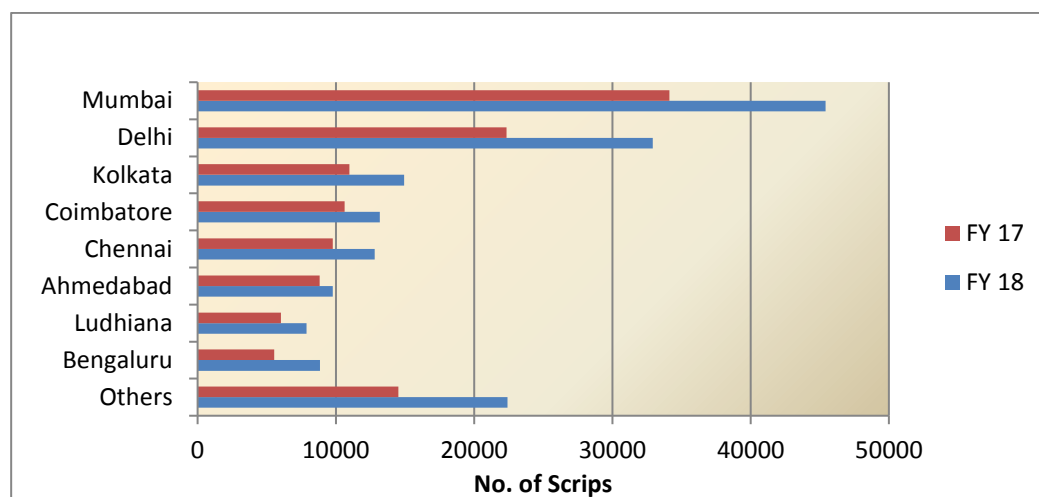
Number of Scrips, Duty Credit, FOB value of Exports under various Export Incentive Schemes						
Year	Criteria	FY 15	FY 16	FY 17	FY 18	FY 19
Five pre-existing Schemes	No. of Scrips	180002	123858	32053	9250	4159
	Duty Credit	17731	11028	2337	702	550
	FOB (₹ in cr)	562589	334247	64687	21268	20775
MEIS	No. of Scrips		31375	159446	218402	298350
	Value of Scrips (₹ in cr)		4104	18117	25994	39298
	FOB (₹ in cr)		138014	688473	978286	1246772
<b>Total of MEIS and pre-existing schemes</b>	No. of Scrips	180002	155233	191499	227652	302509
	Value of Scrips (₹ in cr)	17731	15132	20454	26696	39848
	FOB (₹ in cr)	562589	472261	753160	999554	1267547
<b>Ratio of scrip value to FOB</b>		<b>3.15</b>	<b>3.2</b>	<b>2.72</b>	<b>2.67</b>	<b>3.14</b>
<b>YoY of ratio of scrip value to FOB</b>		<b>(-) 12.25</b>	<b>(+) 1.58</b>	<b>(-) 15.00</b>	<b>(-) 1.83</b>	<b>(+) 17.60</b>
SFIS	Number of Scrips	1984	2072	1423	751	259
	Duty Credit (₹ in cr)	1300	1126	1252	309	194
	FOB (₹ in cr)	<b>Not available in DGFT Reports</b>				
SEIS	Number of Scrips		0	1368	5569	6376
	Duty Credit (₹ in cr)		0	561	3475	4263
	FOB (₹ in cr)		0	167172	1587379	1372212

Year	Criteria	FY 15	FY 16	FY 17	FY 18	FY 19
Total of SFIS and SEIS	Number of Scrips	1984	2072	2791	6320	6635
	Value of Scrips (₹ in cr)	1300	1126	1813	3784	4457
	FOB (₹ in cr)		Not available in DGFT Reports			
Grand Total	Number of Scrips	181986	157305	194290	233972	309144
	Value of Scrips (₹ in cr)	19031	16258	22267	30480	44305
	FOB (₹ in cr)	562589	472261	920332	2586933	2639759

Source: DGFT MIS Report on Export Promotion Scheme 2019

As could be seen from Table 1 above, there was a steady increase in the number of scrips during FY 17 (23.51 per cent), FY 18 (20.42 per cent) and FY 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 16. Top eight Regional Authorities (RAs) in terms of issuing scrip sunder MEIS/SEIS in FY 18 along with a comparison of scrips issued in FY 17 have been shown in the graph below.

Fig 1: MEIS/SEIS Scrips issued by Major RAs during FY 17 and FY 18



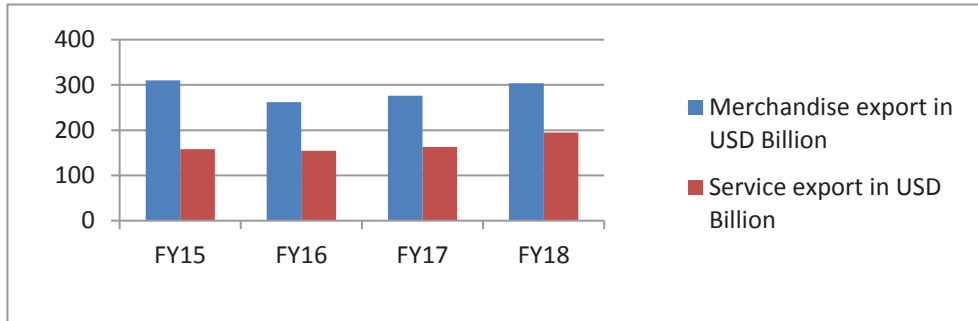
RA Mumbai has issued the highest number of MEIS / SEIS scrips during FY 18 and FY 19, accounting for 20.8 per cent of total scrips, followed by Delhi (15.07 per cent), Kolkata (6.85 per cent), Coimbatore (6.03 per cent) and Chennai (5.87 per cent).

### 1.3 Export Performance under MEIS and SEIS

#### 1.3.1 Export performance and duty forgone through scrips

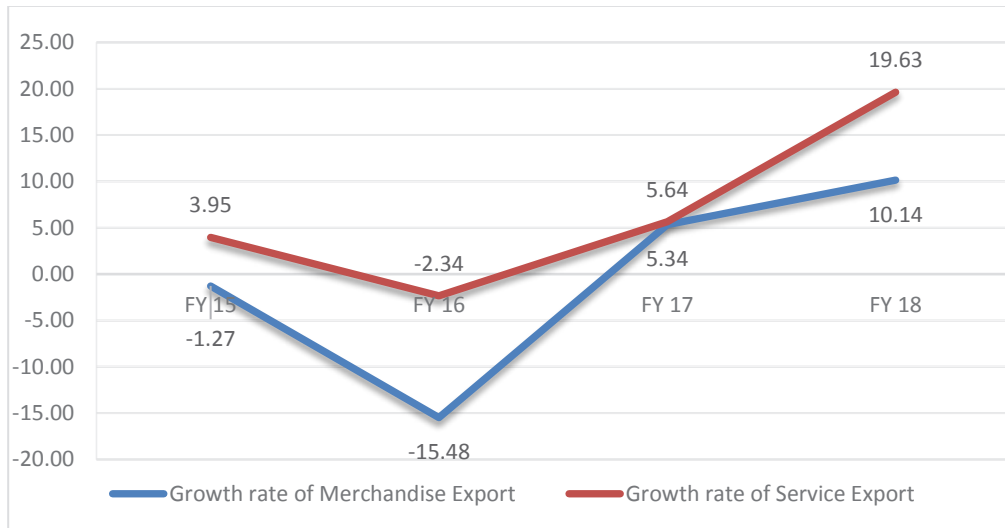
Export performance of Merchandise and Service in US Billion dollars in last four years from FY 15 to FY 18 is represented in the charts below.

**Fig 2. All India Export of Merchandise Goods and Services**



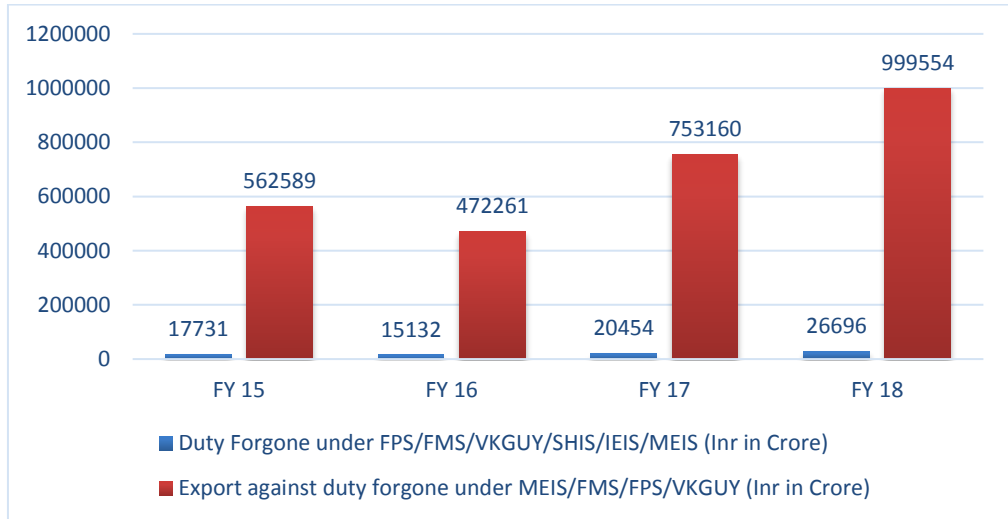
Source: [dashboard.commerce.gov.in](http://dashboard.commerce.gov.in)

**Fig 3: Rate of growth of Export**



Export of merchandise and services, after registering a decline in FY 16, made a recovery during FY 17 and FY 18.

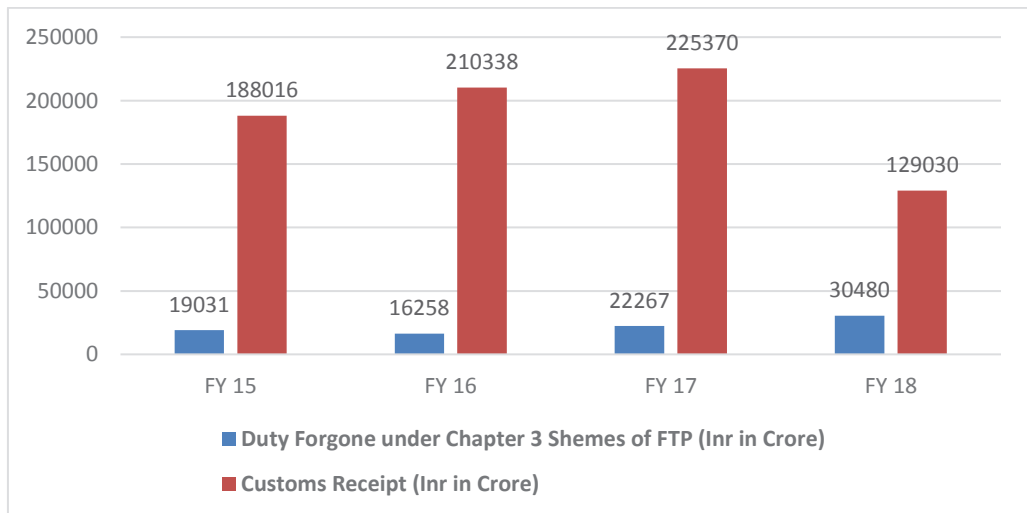
**Fig. 4: Export of Merchandise vis-a-vis duty forgone**



Source: MIS Report on Export Promotion Scheme 2017

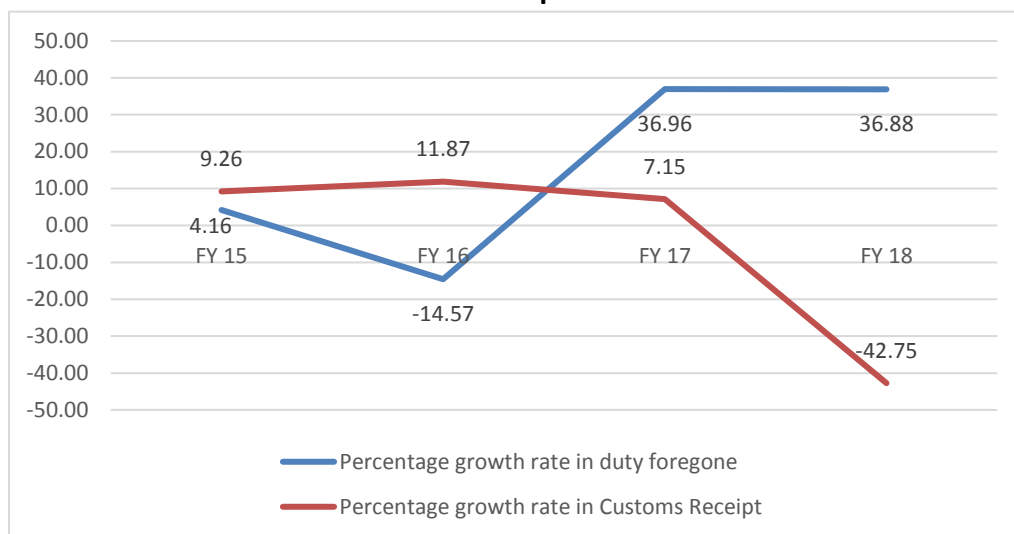
The percentage growth of export of merchandise was 59.47 per cent in FY 17 and 32.71 per cent in FY 18. The Year on Year growth rate declined only in FY 16, the year of introduction of MEIS.

**Fig. 5: Customs receipts vis-a-vis duty forgone under Chapter 3 of FTP**



Source : Receipt Budget and MIS Report on Export Promotion Scheme 2017

**Fig 6: Growth rate of customs receipts vis a vis duty forgone under Chapter 3**



Duty foregone on account of export of every one billion United States Dollar (USD) of items exported under Chapter 3 of FTP works out to ₹11.82 crore and ₹61.18 crore for Services and Merchandise respectively.

### 1.3.2 Share of MEIS in total exports

Analysis of MEIS claim for export of commodities under different sections of Custom Tariff over the period FY 16 to FY 18 revealed that claim of MEIS registered growth under all sections of custom tariff. The average percentage export claimed under MEIS to that of total exports increased from 11.83 percent in FY 16 to 52.93 percent in the FY 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 17 and FY 18 were negligible when compared to their corresponding export volume. **(Appendix 1)**.

### 1.3.3 Analysis of MEIS benefits to Handloom and Handicraft products

To promote rural and small scale industries, Government provided (November 2017) enhanced MEIS rates to handloom and handicraft products. An analysis of the total handicraft export vis-à-vis handicraft export under MEIS revealed that there was a five-fold increase in per cent of handicraft exports covered under MEIS from 5.55 per cent to 29.34 per cent, as depicted in **Table 2** below. 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.

**Table 2: Handicraft Exports**

YEAR	Value of handicraft export (other than hand knotted carpet) (₹ in cr)	Value of Export of handicraft claimed under MEIS (₹ in cr) <sup>3</sup>	Percentage of export claimed for reward under MEIS
FY 16	21557.12 <sup>4</sup>	1197.88	5.55
FY 17	24392.39	6243.28	25.60
FY 18	23029.36	6732.96	29.34

Similar analysis under handloom category, as depicted in **Table 3**, revealed that value of export claimed under handloom export for MEIS reward increased from 15.52 per cent to 60.08 per cent in FY 18, with nearly 40 per cent of export remaining out of MEIS reward.<sup>5</sup>

**Table 3: Handloom Exports**

YEAR	Value of handloom Export <sup>6</sup> (₹ in cr)	Value of Export of handloom claimed under MEIS (₹ in cr) <sup>7</sup>	Percentage of export claimed
FY 16	2353.33	365.23	15.52
FY 17	2392.21	1106.04	46.24
FY 18	2280.19	1370.03	60.08

#### 1.4 Audit Objectives

The audit objectives of the Performance audit were as follows:

- (i) To examine the success of facilitation measures introduced for simplifying the process of issue of MEIS and SEIS scrips,
- (ii) To examine effective linkage of rules and procedures of the Schemes in DGFT Electronic Data Interchange (EDI) system,

<sup>3</sup>MEIS data as made available by DGFT New Delhi.

<sup>4</sup>Source : Export data from data of Handicraft Export Promotion Council on the website of Ministry of Commerce and Export claimed under MEIS as per data made available by DGFT New Delhi

<sup>5</sup>Total of 32 CTH get covered under Handloom goods (Appendix 3B).

<sup>6</sup>Export figure of Handloom Export Promotion Council as available on website of Ministry of Commerce.

<sup>7</sup>MEIS data as made available by DGFT New Delhi.

- (iii) To examine whether internal control measures were sufficient to minimize the risks of revenue loss, misuse and fraud in the environment of simplification and automation.

## 1.5 Audit Scope, Audit Coverage, Audit Criteria and Audit Methodology

### Audit Scope

This performance audit covered the records and transactions for the period from April 2015 to October 2018. Audit covered DGFT and its RAs, Customs field formations through Customs Commissionerates, concerned.

### Audit Coverage

Analysis of Pan India data received from DGFT for the period April 2015 to October 2018 revealed that 5,94,653 (5,84,650 MEIS and 10,003 SEIS) scrips amounting to ₹ 76,416 crore were issued by 38 RAs and Nine Development Commissioners (DCs) of SEZs.

In addition to Pan-India data analysis, 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 to examine the manual checks being exercised by the RAs and DC offices. These 32 units covered 5,53,726 (5,43,803 MEIS and 9,923 SEIS) scrips amounting to ₹72,743 crore. The percentage scrips handled by the 32 selected units in terms of value and number worked out to 95.19 and 93.12 respectively (**Appendix 2**).

Further, in these selected units, 6,205 Scrips (5747 MEIS Scrips and 458 SEIS Scrips), representing 1.7 per cent of 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 (**Appendix 3**).

Results of data analysis carried out on Pan-India data and the audit findings based on test check carried out in selected units and sampled scrips were suitably included in the report.

### Audit Criteria

Audit used the relevant provisions of the applicable Acts, manuals, rules, government notifications as criteria, to benchmark the findings. The important provisions are listed below:

- FTP 2015-20,
- Hand Book of Procedures (HBP) and its Appendices and Forms,
- Public Notice (PN)/Circulars issued by the DGFT,
- Central Board of Indirect taxes and Customs (CBIC) Notifications and Circulars on MEIS and SEIS, which were issued from time to time and were in effect during the period of audit,



## **Audit Methodology**

This performance audit was conducted using the guidelines of CAG of India for Performance Audit, and within the scope prescribed in the CAG's DPC Act, 1971.

Audit methodology includes desk review of files, collection of data and data analysis, test check of scrip files, bills of entry (imports) availing benefit of MEIS and SEIS duty credit scrips.

