Chapter 2

Systemic issues in Implementation of MEIS and SEIS

The schemes MEIS and SEIS were introduced mainly with the objective of improving ease of doing business, simplifying the procedures, a drive towards paperless processing and for better trade facilitation.   DGFT introduced enhanced electronic governance for these schemes to put in place a system driven receipt of applications and issue of scrips with minimum physical interface between RAs and exporters.

Audit examined the implementation of facilitation measures introduced for simplifying the process of issuance of MEIS and SEIS scrips by analysing the pan-India data for the period from 2015-16 to 2018-19 (October 2018) and key features in the automated system. The analysis revealed that while automation of SEIS was partial, in case of MEIS which was largely automated, there were shortcomings and gaps in the automated processes. The automated system developed for MEIS/SEIS required manual intervention thereby leading to avoidable physical interface and discretion in the hands of authorised officials resulting in delays. In view of the manual intervention in the electronic system, in addition to carrying out analysis of Pan-India data, limited field audits were also carried out by drawing out a sample of scrips in the 32 selected units. **As 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 and take appropriate corrective action.**

The audit findings indicated the failure of the automated system in achieving the objective of simplification of procedures and ease of doing business, as summarised below:

- Findings relating to MEIS
  - Substantial delay in issuance of MEIS scrips;
  - Discrepancies between scrip value and actual entitlement;
  - Incorrect adoption of foreign exchange rates;
  - Incorrect levy of "Late Cut";
  - Grant of benefits on export proceeds realised in Indian Rupee (INR) and
  - Delay in operationalization of E-commerce module for MEIS
- Findings relating to SEIS
  - Delay in issuance of SEIS scrips

- Findings relating to Risk Management System (RMS)
  - o Delay and deficiencies in functioning of RMS and
  - o Consequences of ineffective RMS

Findings relating to MEIS

2.1 Delay in issuance of MEIS scrips

DGFT, in its Citizen Charter under Para 1.09 of FTP prescribes[8] three days for disposal of applications under chapter 3 of FTP. In case of any suspicion of wrong classification or mis-declaration in application, the RA concerned may seek physical document for scrutiny and on receipt of such document, the claim must be decided within seven days[9] after scrutiny. Audit measured the success of facilitation measures vis-à-vis these timelines and observed delays as detailed below:

2.1.1 Delay in issuance of MEIS scrips

We analysed the entire data of MEIS for the period from FY 16 to FY 19 (October 2018) and delay of more than 10 days in issuing scrips was noticed in 12,002 files (42.33 per cent) during FY 16, in 73,320 files (49.87 per cent) during FY 17, in 78,771 files (38.93 per cent) during FY 18 and 32,886 files (20.13 per cent) during FY 19 (up to October 2018) in selected 32 units (25 RAs and 7 SEZs). The delay in terms of per cent decreased slightly from 42 per cent in FY 16 to 39 per cent in FY 18 and further to 20 per cent in first half of FY 19. However, number wise, the delayed scrips remained substantial. The delay was observed in more than 50 per cent of files in RAs in charge of SEZs because they were non-EDI ports and hence required verification of physical records **(Statement 1).**

DGFT replied (March 2020) that the approval of MEIS had since been made system operated for more than 99 per cent Harmonised System (HS) Codes.

2.1.2 Delay in issue of MEIS scrips in SEZs

Exports through SEZ units are considered as exports through Non-EDI mode due to non-integration of SEZ exports module with the Customs ICES network and non-receipt of Shipping Bill (SB) data of SEZs in the DGFT Shipping Bill Repository.

Audit observed that the delay in issue of the scrips in 50 per cent of the cases commented pertained to SEZs. The timelines prescribed in the Citizen charter

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[8] Vide Public Notice No.16/2015-20 dated 4 June 2015
[9]As specified in para 3.01 of HBPv1 made effective from 5 December 2017

for issuance of scrips for EDI and Non-EDI ports were the same which need to be reviewed.

DGFT stated (March 2020) that since April 2019, after the integration of the data exchange mechanism of the DGFT and the SEZ online module operated by National Securities Depository Limited (NSDL), the data of shipping bills was being received electronically. They also reported that the time taken for SEZ units to process applications, received for shipping bills after April 2019, improved considerably.

The system developed for MEIS was an electronic system which required manual intervention. Hence in addition to carrying out analysis of Pan-India data, limited field audits were carried out by drawing out a sample of scrips in the 32 selected units and the reasons for such substantial delays in issue of scrips were analysed, the audit findings on which have been reported in Chapter 3 of this report.

2.2 Discrepancies between MEIS scrip value and actual entitlement as per shipping bills

In the application made by the exporter for grant of rewards, the automated MEIS module should add up the actual entitlement of rewards for each shipping bill in the application and issue the incentive scrip equal to the sum of all such rewards.

Data analysis on pan India basis on MEIS scrips granted during the period April 2015 to October 2018 revealed that in 39,184 scrips (6.70 per cent of total scrips), the scrip value issued was more than the sum of actual entitlement of the SBs in the application resulting in excess payment of ₹13.37 crore **(Statement 2).**

The above extracted data was correlated with 355 physical records from the selected units to confirm the issue of excess issue of scrip against actual entitlement.

DGFT replied (September 2019) that a programming bug was identified in the system related to "non-updation of deleted shipping bills in calculation of final entitlements" and consequently, it asked RAs to initiate recoveries wherever due.

2.3   Incorrect adoption of foreign exchange rates

Foreign exchange shall be converted to Indian Rupee[10] using the exchange rates as on the date of Let Export Order (LEO). These rates are published by CBIC from time to time and updated by the DGFT in its EDI system. In respect of EDI Shipping Bills, the exchange rate as on the LEO date is captured from the DGFT EDI system to convert the FOB in Indian rupees and export incentives are awarded as a percentage of FOB.

Audit observed that the exchange rates as per Customs notifications[11] were not updated in time in the DGFT system, resulting in excess or short issue of incentives.

Data analysis of MEIS claims for the period from FY 16 to FY 19 (up to October 2018) on application of exchange rates revealed that in 20,834 SBs pertaining to 8,218 applications, the exchange rates were incorrectly adopted resulting in excess sanction of ₹3.40 crore duty credit and short sanction of duty credit of ₹ 3.31 crore in 50,433 SBs (0.46 per cent of total) in 12,371 applications **(Statement 3).**

DGFT stated (March 2020) that necessary recovery action for such excess claims was underway and RAs were informed to initiate recovery action. They also intimated that in total, there were some short claims also, and the net excess was ₹ 0.09 Cr. RA Kochi and Bengaluru reported recovery of ₹ 0.12 crore.

No specific reply was given by DGFT regarding delay in updation of notifications. Further, the contention of DGFT on net excess was not correct and both excess and short claims were irregular and could have been avoided with timely updation of forex rates in the automated system.

2.4   Excess issue of MEIS benefit due to incorrect levy of "Late Cut"

In terms of para 3.15 read with para 9.02 of HBP, applications claiming duty credit scrip under MEIS shall be filed within a period of twelve months from LEO date of shipping bills or within three months of customs uploading of shipping bills of EDI ports to DGFT server, whichever is later. Whenever application is received beyond due date, the same can be considered after

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[10]paragraph 1.15 of HBP Volume I read with paragraph 9.12(D)

[11]Customs (NT) Notification Nos.97/2015, dated 1 October 15; 52/2016 dated 4 June 2016, 119/2016 dated 1 September 2016; 136/2015 dated 3 December 2015 and 22/2017, dated 16 March 2017.

imposing a "Late Cut" of 2 per cent if received within six months from the due date; 5 per cent if received after six months but not later than one year from the due date, 10 per cent if received after 12 months but not later than 2 years from the due date.

Audit analysed the data of MEIS claims for the period from April 2015 to October 2018 which revealed that the system had incorrectly applied "Late Cut" in 32,591 SBs (in 6013 files) resulting in excess sanction of MEIS duty credit of ₹ 5.66 crore in selected units **(Statement 4)** indicating that the system was not aligned to calculate the "Late Cut" correctly.

DGFT replied (September 2019) that a programming bug was identified in the system related to Calculation of "Late Cut" and that the RAs had been asked to initiate recoveries wherever due. RA Kochi reported recovery of ₹ 5.23 lakh.

2.5   Incorrect grant of MEIS incentives on INR realisation of export proceeds

As per Para 2.52 of the FTP 2015-20, the export proceeds shall be realized in freely convertible currency to claim benefits under the Policy except when:
•   the export proceeds were received in INR from exports to IRAN;
•   amounts were received in rupees through a freely convertible Vostro account of a non-resident bank situated in any country other than a member country of Asian Clearing Union (ACU) or Nepal or Bhutan and rupee payment through Vostro account must be against payment in free foreign currency by buyer in his non-resident bank account.

An analysis of MEIS claims for the period from FY 16 to FY 19 (up to October 2018) revealed that an amount of ₹21,802.08 crore was received in INR (out of FOB value of ₹24,52,036 crore) and reward of ₹643.33 crore was granted by DGFT.

Audit observed that there was neither a mechanism with RAs to ensure that export proceeds were received in INR by way of Vostro accounts nor the RAs insisted for any declaration from the exporters.

Audit further analysed the INR receipts from ACU countries and it was found that an amount of ₹48.90 crore was received in INR from Nepal and Bhutan and reward of ₹1.36 crore was awarded by eight units[12], against 690 SBs **(Statement 5).** This indicated failure of MEIS module to align with the

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[12]RAs Ahmedabad, Chennai, CSEZ Kochi, Coimbatore, Delhi, Kolkata, Pune and SEEPZ, Mumbai

restrictive condition envisaged in the Policy. RA Kochi reported recovery of ₹1.92 lakh.

DGFT stated (March 2020) that the systemic improvements in the procedure were effective vide PN 08 and Trade Notice 15 (May 2019) under which Vostro Payments were being examined by the RAs with necessary documents before grant of MEIS.

2.6   Delay in operationalization of E-commerce module for MEIS resulting in non-availability of MEIS rewards for e-commerce exports

MEIS rewards are allowed[13] for export of goods through courier or Foreign Post Office (FPO) using e-commerce for goods notified in Appendix 3C, for FOB value upto ₹25000. Such goods can be exported in manual mode through FPO, New Delhi, Chennai and Mumbai.

E-commerce exports amounting to FOB value of ₹276.46 crore in respect of goods notified in Appendix 3C for the period FY 16 to FY 18 were undertaken through New Courier Terminal (NCT), Delhi. These exports were eligible for MEIS rewards. However, audit noticed that no claims/licences were issued under MEIS on e-commerce during FY 16 to FY 18 in respect of RA, Delhi.

This happened due to following reasons:
• Appropriate amendments to the Courier Imports and Exports (Electronic Declaration and   Processing) Regulations 2010 for allowing MEIS benefits under e-commerce through courier were made only on 28 March 2018 after a lapse of nearly 3 years after the roll out of the scheme.
• Non-operationalization of e-commerce module of MEIS by DGFT.

DGFT informed that e-commerce module had been made operational from 5 February 2019 and attributed delay in the rollout to Department of Revenue (DoR).

Thus, E-commerce module was not operational for almost four years after the introduction of the scheme. The exporters were deprived of their legitimate benefits of approximately ₹5.52 crore (2 percent of the e-commerce exports valuing ₹ 276.46 crore) and the objective of extending export incentives to smaller e-commerce exporters could not be achieved.

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[13]Under paragraph 3.05 of the Policy 2015-20,

2.7 Other deficiencies relating to issue of MEIS licenses:

2.7.1 Utilisation of shipping bills in more than one license

Single shipping bill can be utilised for generating license scrips only once and hence the system should prevent utilisation of same shipping bill for generating multiple licenses.

Data analysis of MEIS claims for the period from FY 16 to FY 19 (up to October 2018) revealed that in 13,040 cases, same SBs were utilised for issue of different licences.

The issue was examined in 32 units and it was observed that repeated use of SBs occurred when scrips containing such SBs were either cancelled or surrendered for various reasons. The SBs related to that cancelled scrip had been reactivated in the DGFT repository to make them available for the exporters to claim again.

Even after excluding such cancelled/surrendered scrips, double use of SBs was observed in 240 instances in 482 files. There were also 84 instances where SBs got repeated in scrips issued by different units viz., Delhi, FSEZ, Pune and Mumbai and got registered at different Ports of registrations involving MEIS rewards amounting to ₹6.95 lakh. **(Statement 6 & 7).** It was clear that system failed to alert the users, about SBs being used for the second time.

RA SEZ-Falta reported (December 2018) recovery of ₹2.97 lakh.

2.7.2 Issue of MEIS licence against provisions of Jurisdiction

As per provisions Para 3.06 of HBP applicant shall have the option to choose Jurisdictional RA on the basis of Corporate Office/Registered Office/Head Office/Branch Office addressed on Importer Exporter Code (IEC) for submitting application/applications under MEIS and SEIS. This option need to be exercised at the beginning of the financial year. Once the option is exercised no change would be allowed for claim relating to that year. In this regard, DGFT has stated that in the MEIS application module, the IEC holder who applies to a RA, is allowed to apply to only that RA in a financial year.

Data analysis of MEIS data on pan India basis for the period from FY 16 to FY 19 (up to Oct. 2018) revealed that, exporters had not followed the jurisdictional condition as per provisions and had applied in different RAs for exports in the same financial year **(Statement 8)**. The total number of exporters who applied/issued licenses in different RAs for exports in the same financial year in contravention to the provisions had been given below:

Table 4

Sl.No.	Year	No. of exporters(IEC)
1.	2015-16	199
2.	2016-17	224
3.	2017-18	173
4.	2018-19 (upto Oct 18)	34

DGFT stated (September 2019) that the jurisdictional issue was not important as there was no revenue implication.

The reply was not acceptable as this was a clear violation of laid down policy. The checks in the provisions of FTP were not duly aligned to the MEIS application module resulting in issuance of MEIS licences in contravention to the Policy.

Findings relating to SEIS

2.8   Delay in finalization of SEIS scrips

Analysis of Pan-India SEIS data revealed that out of 10,003 scrips issued during the period April 2016 to October 2018, 8,686 scrips (around 87 per cent of scrips) were issued beyond the prescribed 10 days' time**.**

Such significant delay in issuing of 87 per cent scrips reflected lack of integration of automation and trade facilitation into the SEIS scheme, thereby defeating the very intent of having an automated system to streamline the process of issuance of scrips.

DGFT stated (March 2020) that only the applications under the SEIS scheme were received online and the processing was not automated yet. It was also stated that the documents were being checked manually and entitlements were granted after duly examining the eligibility and other necessary pre-conditions.

The timelines prescribed in DGFT's Citizen Charter for issuance of scrips for both MEIS (which is being processed online) and SEIS (wherein processing is not automated) are the same which needs to be reviewed by DGFT.

In case of SEIS, only receipt of application is automated while the process of issue of scrips remained largely manual. The systemic issues in implementation of SEIS, which emanated from the limited field audits carried out by drawing out a sample of scrips in the 32 selected units, have been reported in Chapter 3 of this report.

Findings relating to Risk Management System (RMS)

2.9 Delay and deficiencies in functioning of RMS

Paragraph 3.19 of FTP 2015-20 envisaged that DGFT will select 10 per cent of issued scrips every month for each RA for scrutiny through RMS on random basis and also on the basis of guidelines issued by the DGFT from time to time. RA in turn may call for original documents in all such selected cases for further examination in detail.

It would be the responsibility of the applicants to maintain such documents for a period of at least three years from the date of issuance of scrips or completion of scrutiny under RMS initiated by the RA, whichever is later.

Audit examined the functioning of RMS in the 32 selected units. It was observed that no cases under RMS were undertaken by RA, Delhi till October 2018. In response, RA, Delhi intimated that DGFT had given (November 2018) list of RMS cases from January 2018 to September 2018 only and that cases for RMS prior to this period were not received.

Similarly, RMS cases from DGFT were also not received in RAs-Chennai, Coimbatore, Kochi, Hyderabad, Visakhapatnam, Cuttack, Guwahati, SEZs-Chennai, Kochi, Visakhapatnam, Falta and Noida.

Further, details of RMS cases were not/partially furnished to audit by RAs in Ahmedabad, Bengaluru, Bhopal, Indore, Rajkot, Mumbai, Pune, Kolkata, Patna, Chandigarh, Ludhiana, Panipat, Goa, and Jaipur and SEZs-Mumbai, Kandla.

RA Pune randomly furnished 49 files completed under RMS. It was seen that in 28 files, verification was done and invoices, landing certificates, BRC, Registration cum Membership Certificate (RCMC) and other documents were checked. However, in the remaining cases RMS was completed in summary manner on the ground that PN No.62/2015-2020 dated 16 February 2018 had obviated the necessity of matching description with invoices and no past cases needed to be reopened and assessed except those products specified in that PN.

DGFT replied that RMS list was given to RAs for period April 2015 till December 2016. The scrutiny under RMS was not required for MEIS after 4 May 2016 (when requirement of landing certificate was done away with) as no documents were required for submission to claim MEIS. Later, RMS was initiated for scrips issued after 1st January 2018 in light of PN 62 ibid, wherein the MEIS rewards for most codes were to be granted automatically on the basis of HS codes.

Contention of DGFT was not tenable for following reasons:

- Even though DGFT mentioned that RMS files were provided to RAs for period till December, 2016, many of the sampled RAs did not receive the list from DGFT excepting a few RAs as stated above. Thus, there was no uniform approach in implementing the RMS.

- MEIS was designed primarily to be an automated scheme with minimal manual intervention/checks so that exporters receive the reward quickly (in three days). To mitigate the risk in such an automated system, RMS was designed so that sample files could be checked after awarding the reward to ensure that only eligible exporters claim the reward. This requirement was there from the starting of the scheme till now. Thus, DGFT's contention, that RMS was not required after May 2016, indicated that the implications of non-implementation of RMS were not fully understood.

- Being primarily based on declaration by exporter and in the absence of any data validation in MEIS in the DGFT system, the veracity of the declaration made by the exporters could not be relied upon.

- DGFT referred only to MEIS in their reply, while RMS is applicable to SEIS also.

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 almost three years. RAs were scrutinising the applications in detail in the initial application stage causing delay in issue of licenses, as detailed in Para 2.1 of this chapter, which defeated the core objective of scheme of ease of doing business and trade facilitation.

DGFT stated (March 2020) that RMS procedure has been strengthened and since January 2017 all RAs were being provided with the RMS List (till December 2019).

2.10 Consequences of ineffective RMS

2.10.1 Excess grant of MEIS duty credit scrips due to inclusion of Commission/Insurance/Freight (CIF) charges

In terms of paragraph 3.04 of the FTP, the quantum of reward under MEIS is based on FOB value of exports. The element of CIF charges is required to be deducted from the export proceeds realized, to arrive at the FOB value.

Audit observed that data in respect of CIF charges, though available in the Shipping Bill, was not captured by DGFT Server for computing MEIS

entitlement. The applicant had to fill this data manually and in case applicants did not fill such data, MEIS entitlement would consider the entire FOB realized without deducting these charges resulting in excess entitlement to the applicants. Audit observed that CIF charges were not declared by the exporters in 95 cases in 7 units (RA Bhopal, Jaipur, Pune, Kolkata, Patna, SEZ-Indore and SEZ-Falta), which resulted in excess issue of MEIS rewards amounting to ₹46.46 lakh **(Statement 9).**

DGFT stated (September 2019) that the figures for Commission as mentioned in the shipping bills were not always correct. They stated that mostly this figure was mentioned as zero and the exporter was expected to fill in the figures for each shipping bill in the E-commerce module at the time of applying. It was further held that the information of the correct commission amount was available only with the exporters, who were supposed to report it to bank and that this information was not verifiable from any other document, therefore, the system was based on a self-declaration by the exporter/ applicant.

Incorrect representation of FOB value had direct revenue implication on MEIS rewards. It was clear from the reply that there was no policy or preventive measures like system alert facility in the extant system to ensure mandatory declaration of CIF charges by the exporters and checking of the correctness of the declared value by the RAs. Also, recovery in respect of excess grant was required to be effected.

2.10.2 Incorrect issue of MEIS reward due to misclassification

Scrutiny of classification of goods in audit revealed that misclassification of goods led to claim of higher rates of MEIS duty scrips. The responsibility of ensuring the correctness of Indian Trade Clarification/Harmonised System (ITC/HS) code of the goods exported with reference to the item description given in the Shipping Bills, invoices and packing list, at the time of permitting export lies with the Customs department. At the time of processing and sanctioning MEIS claims in the Automation module, the role of RA, was to generate the license without verification of the item description of the product as per Public Notice 62/2015-2020 dated 16 February 2018. However, prior to the PN, the RAs were required to match the product description as well as ITC (HS) codes before sanction of MEIS reward.

Audit noticed that in 31 categories of products, system allowed higher rates as claimed by the exporters amounting to ₹ 27.24 crore in RA, Ahmedabad, Chennai, Coimbatore, Kochi, CSEZ-Kochi, MSEZ-Chennai, Mumbai, SEEPZ-Mumbai, Pune and Kolkata (**Statement 10** for power loom made-ups claimed

as handloom and **Statement 11** for other Misclassification). Audit further observed that the above ITC HS codes did not figure in the PN 62/2015-2020 dated 16 February 2018 due to which matching of product description with ITC HS Code was not required and the same was required to be included in the said PN.

The system failed to prevent excess grant of rewards due to misclassification of products and granted higher rates applicable to handloom products. The RAs quoted PN for not taking action, which was not correct as the reference to past cases in Para 3 of said PN related to those ITC codes covered in the Annexure only. Non-inclusion of specific description of Power loom/Handloom separately under Made-ups category descriptions in serial numbers 2824 to 2826 indicated weakness in system.

DGFT stated (March 2020) that the classification of goods needed to be checked at Customs Ports and online system could not interpret misclassification of an item. While recovery of ₹ 20 lakh was reported in respect of RA Kochi, DGFT assured to inform RAs to initiate recovery action, wherever due.

2.10.3 Incorrect issue of MEIS scrip to ineligible products and categories

Export categories not eligible to incentives viz., exports prohibited/restricted and exports liable to export duties or Minimum Export Price (MEP) are enumerated in para 3.06 of FTP, 2015-20, as amended vide PN 44/2015-20 dated 5 December 2017.

Audit observed in RAs, Chennai, Kochi, Mumbai and Ahmedabad, scrips were granted in 250 files to ineligible products like potatoes, onions, crabs, lobsters, shark fins, sodium hypophosphite which were either under MEP or deleted from MEIS incentives or fall under prohibited categories. Incorrect grant amounted to ₹4.80 crore in 956 SBs **(Statement 12).**

DGFT was asked to clarify whether this possibility of misclassification of goods leading to incorrect reward rates was considered during policy formulation and whether any measures were introduced/ contemplated to address this issue. DGFT informed that with the objective of improving ease of doing business and reducing delays, directions were issued (February 2018) for processing the MEIS claims only on the basis of ITC (HS) code on the shipping bill except for a few lines where descriptions were also to be matched. Further, DGFT informed that the classification of goods was checked by customs at the ports.

The above indicated that the duty credits were primarily given based on the declaration of the exporters and classification was not checked scrupulously at Customs Port.

The system failed to stop reward claims on exports under MEP regime. The validation controls in the MEIS module were inadequate to avoid automatic grant of incentives to such products and exporters claimed benefits by wrongly quoting ITC (HS) in their SBs. Non-implementation of RMS designed to flag such ineligible/restricted items also led to excess claim of credits.

DGFT stated (March 2020) that the list of such cases would be informed to the RAs for necessary examination and assured that the validation control for such items would be built for MEP goods in the MEIS module. RA Coimbatore, Kochi reported recovery of ₹3.20 crore.

Conclusion

An essential pre-requisite of trade facilitation via automated tools was a system with inbuilt checks and balances duly mapping the key rules, procedures and conditions of the Scheme. The substantial delays in issue of MEIS and SEIS scrips indicated the failure of the automated system in achieving the objective of simplification of procedures and ease of doing business.

The system developed for MEIS was an electronic system which required manual intervention. Manual verification of arithmetical accuracy calculated by 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.

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.

In case of SEIS, only receipt of application is automated while the process of issue of scrips remained largely manual.

To mitigate the risk in the automated system, RMS was designed so that sample files would be checked post rewards in order to ensure that only eligible exporters claimed the rewards. 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. The system granted reward on entire export proceeds realised, without excluding inadmissible components viz., Commission, Insurance and Freight (CIF) charges. The system failed to prevent excess grant of rewards due to misclassification of products and granted higher rates applicable to handloom products. The validation controls in the MEIS module did not restrict grant of incentives to exports under Minimum Export Price (MEP) regime and exporters claim benefits by wrongly quoting ITC (HS) in their SBs. Non-implementation of RMS designed to flag such ineligible/restricted items led to excess claim of credits remaining undetected.

The intended benefits of automation facilities would have been realised only when the procedures for granting scrips were adequately defined to address the risk of erroneous/fraudulent claims and were uniformly followed across all the field offices. Incomplete automation and gaps in the processes to the extent they were automated, resulted in manual intervention, the audit findings on which have been discussed in chapter 3.

<u>Recommendations</u>

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.

DGFT replied (March 2020) that the approval of MEIS had since been made system operated for more than 99 per cent HS Codes. For SEIS, 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.

It is reiterated that a 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.

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.**

DGFT, agreeing to the recommendation, stated (March 2020) that RMS had been strengthened and MEIS applications in which Shipping bills have Zero value for each of the Commission, Insurance and Freight would be given a higher weightage for identification in the RMS list generated.