

CHAPTER II : MINISTRY OF COMMERCE AND INDUSTRY

Department of Commerce

2.1 Blocking of funds and un-recovered arrears

The funds meant for promotion of Indian made products in the international arena remained mostly blocked as corpus fund without being utilised for nine years.

The Government of India (GOI) approved (October 1995), the establishment of the India Brand Equity Fund to finance the fostering of international awareness of India-made products, with a view to projecting the strength of Indian products and services and of the Indian economy. For this purpose, a deed of declaration of the trust fund named 'India Brand Equity Fund (IBEF) Trust'¹ under the Ministry of Commerce was made in July 1996. The sources of income for the fund were the one time budgetary support of Rs. 50 crore received from the Government of India in December 1996 and Rs. 33.67 crore as accruals from premium on the sale of Special Import Licences (SILs) during 1996-97 and 1997-98.

The corpus of the Trust was to be invested in appropriate securities and instruments. All income arising out of the investments of the corpus and upto 25 per cent of the contributions received by the Fund was to be utilised for undertaking international promotions to project India as a whole, as well as specific production sectors namely industry, agriculture, dairying and support the brands which had achieved international quality and performance standards. The guidelines provided for assistance from the fund to be given to the eligible exporters in the form of soft loan repayable over a period of five to seven years.

The status of utilisation of the fund is indicated below:-

(Rupees in crore)

Accounting Year	Opening Balance of Corpus Fund	Income earned during the year	Expenditure incurred during the year	Excess of income transferred to Corpus Fund	Loan disbursed
1996-97	50 plus 13.10 received from sale of SIL	1.20	Nil	1.20	Nil
1997-98	64.30 plus 20.57 received from sale of SIL	10.12	0.008	10.11	Nil

¹ Since renamed as India Brand Equity Foundation in November 2003

Accounting Year	Opening Balance of Corpus Fund	Income earned during the year	Expenditure incurred during the year	Excess of income transferred to Corpus Fund	Loan disbursed
1998-99	94.98	12.80	0.17	12.63	Nil
1999-2000	107.61	14.29	0.08	14.21	5.40
2000-01	121.82	15.45	0.08 0.52 (written off)	14.85	3.09
2001-02	136.67	15.64	0.01	15.63	7.75
2002-03	152.30	18.54	0.03	18.51	0.11
2003-04	170.81	18.33	0.70	17.63	Nil
2004-05	188.44	14.50	6.34	8.16	Nil
2005-06	196.60	--	--	--	--
TOTAL		120.87	7.94	112.93	16.35

Though the Trust was established in 1996, the first loan under the scheme was disbursed only in 1999. Out of the total income of Rs. 120.87 crore earned during 1996-97 to 2004-05, only Rs. 16.35 crore had been disbursed as loan.

To an audit query raised in July 2001, the Ministry stated (August 2001) that from 2001-02 onwards, the objective of the Trust was likely to be better achieved. Again, in November 2003, the Ministry stated that the Government was determined to give a new thrust and dynamism to the activities of IBEF so that the objectives for which the fund had been created could be fully achieved. The Ministry further stated that as a major step in that direction they had entered into a Memorandum of Understanding (MoU) with the Confederation of Indian Industry (CII) under which a Management team had been set up to exclusively manage the functions of IBEF.

Audit examination, however, revealed that even after two and a half years of handing over the management to CII, no loan was disbursed to any company and the corpus had grown to Rs. 196.60 crore as on 31 March 2005 including the interest earned.

The Ministry intimated (June 2005) that the loan activity had been discontinued from 19 January 2004 and to achieve the objectives of the Trust, its mandate had been repositioned to "Building Positive Economic Perceptions for India Globally". The Trust had spent Rs. 3.07 crore during 2004-05 on various promotional events like India- ASEAN Car Rally 2004, Asia Society event in US, China event 2004, Thailand event 2004, Kolkata event 2005 and so on and Rs. 1.49 crore on publications and supplements on the basis of an annual action plan. But all this expenditure was incurred without formulation of long term guidelines fixing the level of spending, assistance for each activity and the mechanism of assessing the outcome.

It is pertinent to note that while at the time of formulation of the scheme, it was contemplated that the Industry would take over, manage and raise further resources required to meet the objectives of the scheme, the Industry had not made any contribution to the fund, so far. Thus, apparently the scheme did not generate adequate interest in the exporting community.

Apart from the meagre utilization of the fund for the desired purposes, ineffective monitoring of recovery of loan, interest etc. resulted in an amount of Rs. 13.18 crore remaining un-recovered from four firms. The Ministry stated (October 2005) that legal action had been initiated against the defaulting companies.

Thus, the funds meant for promotion of 'Made in India' brand goods remained mostly blocked as corpus without being utilised for achieving the envisaged objective for almost nine years. Since the restructuring efforts of IBEF have failed to bring about any perceptible change in its operation and effectiveness, the Ministry may consider transferring the entire amount of the corpus to the Consolidated Fund of India for meaningful utilisation in other priority areas. Also, special efforts needed to be made for expeditious realisation of the outstanding dues.

2.2 Erroneous release of Rs. 1.40 crore

The Ministry released to the Bihar State Export Corporation, an excess amount of Rs. 1.40 crore. The funds were lying unutilised since 2002 and were yet to be recovered by the Ministry.

The Ministry of Commerce (Ministry) launched the centrally sponsored Critical Infrastructure Balance (CIB) scheme in 1996 with a view to strengthening export infrastructure at important locations. As per the guidelines, the Ministry was to provide funds to Central/ State Government departments for infrastructure projects of emergency nature. An Empowered Committee (EC) considered the projects under the scheme for providing assistance.

The Bihar State Export Corporation (BSEC) Limited submitted a project proposal in April 2000 for setting up an Air Cargo Complex (ACC) at Patna airport for handling perishable and non-perishable cargo and sought Rs. 5.92 crore towards the total cost of the project. Since funds under the scheme were generally provided on matching basis, the Ministry asked the BSEC to specify the financial share of the BSEC/State Government in the project.

The BSEC (September 2000), while informing that the Agricultural and Processed Food Products Export Development Authority (APEDA) had agreed in principle to finance the perishable section of the project costing Rs. 3.11 crore, proposed that the State Government and the Ministry would share the balance of Rs. 2.81 crore equally. Accordingly, EC approved the proposal (November 2000) subject to the condition that at least 25 per cent of their share would be spent by the implementing agency before making any request to the Government of India to release the funds.

During 2001-2002, Audit noted that instead of Rs. 1.40 crore approved by EC towards the central share, the Ministry released the whole amount of Rs. 2.81 crore to the State Government in March 2002 resulting in excess release of Rs. 1.40 crore. In May 2005, Audit further noted that even as the funds were to be utilised within the year 2002-03, the amount of Rs. 2.81 crore was still lying unspent with the State Government.

On this being pointed out by Audit (July 2005), the Ministry stated (August 2005) that the State Government had been asked to return the entire amount of Rs. 2.81 crore as no progress had been reported in the project so far.

Thus, lack of monitoring and erroneous release of Rs. 1.40 crore, resulted in idling of the funds for more than three years. The Ministry needed to take urgent steps to recover the funds and strengthen their internal control mechanism to avoid recurrence of similar irregularities.

2.3 SEEPZ Special Economic Zone, Mumbai

Interest adjusted on unutilised funds at the instance of Audit

Inaction of Santacruz Electronics Export Processing Zone Mumbai to recover/adjust interest accrued on unspent fund held with Maharashtra Industrial Development Corporation led to non-recovery of interest of Rs. 46.81 lakh during 2003-04 and 2004-05 till it was pointed out by Audit.

The Ministry of Commerce in November 1973 approved entrustment of construction of buildings and other utilities in Santacruz Electronics Export Processing Zone (SEEPZ), Mumbai to Maharashtra Industrial Development Corporation (MIDC). The terms and conditions of the works entrusted to MIDC *inter-alia* stipulated release of funds by the Ministry/SEEPZ on a quarterly basis for MIDC to undertake the work as deposit works.

Examination of records by Audit at SEEPZ revealed that it had deposited the entire amount of Rs. 1.80 crore in February 2000 released by the Ministry with

MIDC towards the cost of special repair works at SEEPZ and its staff quarters against the work order of the value of Rs. 1.80 crore. Though the work order stipulated completion of the work within the financial year 1999-2000, MIDC could spend only Rs. 5.90 lakh up to April 2000 on one item of work, representing 3.3 *per cent* of the total funds deposited by SEEPZ.

There was no provision in the terms and conditions of the works entrusted to MIDC for payment of interest on the unspent balance by MIDC. There was thus an undue benefit that had accrued to MIDC on the substantial unspent balance held with them. On this being pointed out by Audit in October 2000 and again in April 2002, SEEPZ recognized the need to take up the matter with MIDC which led to a mutual understanding in March 2004. MIDC was to invest the unspent balance in banks/financial institutions and credit the interest accrued on such funds to the funds received from SEEPZ.

Notwithstanding this understanding, MIDC had not afforded any credit towards interest accrued on the unspent balance of Rs. 14.85 crore held by it on 31 March 2005 out of Rs. 20.35 crore released by SEEPZ during 2003-2004 and 2004-2005 as detailed below:

(Rupees in crore)

Year	Amount deposited	Expenditure	Balance
2003-04	3.61	2.09	1.52
2004-05	16.74	3.41	13.33
Total	20.35	5.50	14.85

When Audit again pointed this out in April 2005, SEEPZ took up the matter with MIDC in June 2005. MIDC intimated in July 2005/August 2005 that an interest of Rs. 46.81 lakh had been worked out as accrued on the amount deposited under ASIDE Scheme for SEEPZ during 2003-04 and 2004-05.

Thus, inaction of and weak internal control in SEEPZ led to non-adjustment of interest of Rs. 46.81 lakh accrued on unspent balance fund held with MIDC till it was pointed by Audit.