

**PUBLIC ACCOUNTS COMMITTEE
(1977-78)**

(SIXTH LOK SABHA)

THIRTY-SECOND REPORT

**CASH ASSISTANCE FOR EXPORT OF
MAN-MADE FABRICS**

**MINISTRY OF COMMERCE
(DEPARTMENTS OF TEXTILES)**

**[Action taken by Government on the Recommendation
of the Public Accounts Committee contained in
their 178th Report (Fifth Lok Sabha)].**

Presented in Lok Sabha on

= 8 DEC 1977

Laid in Rajya Sabha on

= 8 DEC 1977



**LOK SABHA SECRETARIAT
NEW DELHI**

November, 1977/Kartika 1899 (S)

Price : Rs. 2.10

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATIONS

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
ANDHRA PRADESH			12.	Charles Lambert & Company, 101, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.	30
1.	Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam)	8	13.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.	60
2.	G.R. Lakshminipathy Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	94	14.	Deccan Book Stall, Ferguson College Road, Poona-4.	65
ASSAM			15.	M/s. Usha Book Depot, 585/A, Chitra Bazar, Khan House, Girgaum Road, Bombay-2. B.R.	5
3.	Western Book Depot, Pan Bazar, Gauhati.	7	MYSORE		
BIHAR			16.	M/s. Peoples Book House, Opp. Jaganmohan Palace, Mysore-1	16
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	37	RAJASTHAN		
GUJARAT			17.	Information Centre, Government of Rajasthan Tripolia, Jaipur City	38
5.	Vijsay Stores, Station Road, Anand.	35	UTTAR PRADESH		
6.	The New Order Book Company Ellis Bridge, Ahmedabad-6.	61	18.	Swastik Industrial Works, 59, Holi Street Meerut City	2
HARYANA			19.	Law Book Company, Sardar Patel Marg, Allahabad-1	48
7.	M/s. Prabhu Book Service, Nao Subramandi, Gurgaon, (Haryana).	14	WEST BENGAL		
MADHYA PRADESH			20.	Granthaloka, 5/1, Ambica Mookherjee Road Belgharia, 24 Parganas	10
8.	Modern Book House, Shiv Vilas Palace, Indore City.	13	21.	W. Newman & Company Ltd. 3, Old Court House Street, Calcutta	44
MAHARASHTRA			22.	Firma K.L. Mukhopadhyay, 6/1A, Banchharam Akkur Lane, Calcutta 12	82
9.	M/s. Sunderdas Gnanchand, 601, Girgaum Road, Near Princess Street, Bombay-2	6	23.	M/s. Mukherji Book House, 8B, Duff Lane, Calcutta-6	4
10.	The International Book House (Private) Limited 9, Ash Lane, Mahatma Gandhi Road, Bombay-1	22			
11.	The International Book Service, Deccan Gymkhana - Poona-4	26			

CORRIGENDA TO 32ND REPORT OF THE PUBLIC
ACCOUNTS COMMITTEE (1977-78)

<u>Page</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
1	24	Add at the end of paragraph 1.2 'Action Taken Notes vetted by Audit were later made available to the Committee on 1 November, 1976'.	
7	16	Put asterisk mark on the word informed and add footnote - '* copy not received in Audit and hence not vetted.'	
23	23	The	The
23	36	Veryfied	verified
25	2	either	either
25	14	benefitted	benefited
26	1	Put asterisk mark on the word Action.	
27	33	only kept	only 'kept
29	36	justibed	justified.

CONTENTS

PAGE

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	(iii)
INTRODUCTION.	(v)
CHAPTER I	—Report. I
CHAPTER II	—Recommendations/Observations that have been accepted by Government. 15
CHAPTER III	—Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Government. 23
CHAPTER IV	—Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration. 27
CHAPTER V	—Recommendations/Observations in respect of which Government have furnished interim replies. 34
APPENDIX	—Consolidated statement of Conclusions/Recommendations . 35

PUBLIC ACCOUNTS COMMITTEE
(1977-78)

Shri C. M. Stephen—*Chairman*

MEMBERS

Lok Sabha

2. Shri Balak Ram
3. Shri Brij Raj Singh
4. Shri Tulsidas Dasappa
5. Shri Asoke Krishna Dutt
6. Shri Kanwar Lal Gupta
7. Shri P. K. Kodiyan
8. Shri B. P. Mandal
9. Shri R. K. Mhalgi
10. Dr. Laxminarayan Pandeya
11. Shri Gauri Shankar Rai
12. Shri M. Satyanarayan Rao
13. Shri Vasant Sathe
- *14. Shri Sheo Narain
- *15. Shri Jagdami Prashad Yadav

Rajya Sabha

16. Smt. Sushila Shanker Advanekar
17. Shri Sardar Amjad Ali
18. Shri M. Kadershah
19. Shri Piare Lal Kureel or Piare Lal Talib
20. Shri S. A. Khaja Mohideen
21. Shri Bezawada Papreddi
22. Shri Zawar Hussain

SECRETARIAT

Shri B. K. Mukherjee—*Joint Secretary*

Shri T. R. Ghai—*Senior Financial Committee Officer.*

*Ceased to be a Member of the Committee on his appointment as Minister of State w.e.f. 14-8-1977.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Thirty-Second Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Hundred and Seventy-eighth Report (5th Lok Sabha) on 'Cash Assistance for Export of Man-Made Fabrics' commented upon in Paragraph 29 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil).

2. On 10 August, 1977 an 'Action Taken Sub-Committee' consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri C. M. Stephen—*Chairman*
2. Shri Asoke Krishna Dutt—*Convener*

Members

3. Shri Gauri Shankar Rai
4. Shri Tulsidas Dasappa
5. Shri Kanwar Lal Gupta
6. Shri Zawar Hussain
7. Shri Vasant Sathe

3. The Action Taken Sub-Committee of the Public Accounts Committee (1976-77) considered and approved the Report at their sitting held on 20 December, 1976. The Report was adopted by the Public Accounts Committee (1976-77) on 31st December, 1976, but it could not be presented due to dissolution of Lok Sabha on 18 January, 1977. The Action Taken Sub-Committee of the Public Accounts Committee (1977-78) considered and adopted the Report at their sitting held on 17 October, 1977 (AN). The Report was finally adopted by the Public Accounts Committee (1977-78) on 11 November, 1977.

4. For facility of reference the conclusions/recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, the conclusions/recommen-

(vi)

dations of the Committee have also been appended to the Report in a consolidated form.

5. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Comptroller & Auditor General of India.

NEW DELHI;
November 15, 1977.
Kartika 24, 1899 (S).

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by Government on the Committee's recommendations/observations contained in their 178th Report (Fifth Lok Sabha) on 'Cash Assistance for export of Man-made Fabrics', commented upon in paragraph 29 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil), relating to the Ministry of Commerce.

1.2. The Committee's 178th Report was presented to the Lok Sabha on 30 April, 1976 and contained 20 recommendations/observations. According to the time schedule for furnishing Action Taken Notes on the Committee's recommendations/observations, prescribed in the Committee's 5th Report (Fourth Lok Sabha), the Notes indicating the action taken by Government in pursuance of the recommendations/observations contained in the 178th Report were required to be furnished to the Committee latest by 31st October 1976. The Ministry of Commerce had, however, been requested, on 4 June, 1976, to furnish the relevant Notes latest by 31 August 1976, so that the Committee's work might be facilitated. Subsequently, on a request made by the Ministry, this time limit had been extended till 30 September 1976 and advance copies (unvetted by Audit) of all the Action Taken Notes were made available to the Committee in accordance with this revised schedule.

1.3. The Action Taken Notes received from Government have been broadly categorised as follows:

- (i) *Recommendations/observations that have been accepted by Government:*

Sl. Nos. 1, 2, 3, 5, 6, 9, 11, 12, 16 and 20.

- (ii) *Recommendations/observations which the Committee do not desire to pursue in the light of the replies received from Government:*

Sl. Nos. 17, 18 and 19.

- (iii) *Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration:*

Sl. Nos. 4, 7, 8, 10, 13, 14 and 15.

- (iv) *Recommendations/observations in respect of which Government have furnished interim replies:*

NIL

1.4. The Committee will now deal with the action taken by Government on some of their recommendations/observations

Non-observance of the 'value added' principle in granting cash assistance for export of man-made fabrics (Paragraph 1.108—Sl. No. 4).

1.5. Reviewing the grant of a 'massive assistance' totalling about Rs. 1132 lakhs for exports of man-made fabrics during the six year period from 1968-69 to 1973-74, on the basis of inadequate cost scrutiny and hypothetical assumptions that had little or no relevance to the realities of the situation then prevailing, the Committee, in paragraph 1.108 of their 178th Report, had observed *inter alia*, as follows:

"Cash assistance is also usually restricted to 25 per cent of the 'value added', which is the amount arrived at by deducting the value of the import content from the f.o.b. realisation. While this principle ensures that the assistance has some direct relevance and relation to the net foreign exchange earned and is applied for all assistance given from the Marketing Development Fund, the Committee find that the cash assistance sanctioned in respect of man-made fabrics was not worked out with reference to the 'added value'. In justification thereof, it has been stated that this particular assistance was not provided out of the Marketing Development Fund. Since the same principle ought to apply, irrespective of the source of finance, it is not clear to the Committee why this sound principle was given the go-by in the case of exports of man-made fabrics."

1.6. In their Action Taken Note dated 21 September 1976, furnished in response to these observations, the Ministry of Commerce (Department of Textiles) have stated:

"The observations of the Committee are noted."

1.7. The Committee have often before emphasised the need for a positive and helpful reaction on the part of the administration to their recommendations/observations and for ensuring that the Action

Taken Notes sent in response to their reports are explicit and categorical. Ministries/Departments still choose, however, to intimate that the Committee's observations have been 'Noted'. This happens even where specific facts or clarifications are called for. The Committee, in paragraph 1.108 of their 178th Report (Fifth Lok Sabha), had specifically wanted to know the reasons for not working out the cash assistance sanctioned in respect of man-made fabrics with reference to the 'value added'. In spite of it, the Department of Textiles have maintained a non-committal silence on this question. The position in this regard requires forthwith to be clarified. The Committee would also invite attention to the observations contained in paragraph 1.39 of their 220th Report (Fifth Lok Sabha) which are pertinent in this context.

Operation of the cash assistance scheme without Government's specific approval (Paragraph 1.111-Sl. No. 7)

1.8. Dealing with the implementation of the scheme through the agency of a public sector corporation (State Trading Corporation), the Committee, in paragraph 1.111 of the Report, had observed, *inter alia*, as follows:

"Apart from issuing certain broad guidelines to the State Trading Corporation in regard to the administration of the scheme of cash assistance, Government had, admittedly, left the modalities of implementation and the determination of the actual quantum of cash assistance to the discretion of the former. The State Trading Corporation, on its part, had not even obtained Government's specific approval for the grant of what, *prima facie*, appears to be an *ad hoc* assistance, and had only 'kept the Government informed'. It is also not clear from the evidence whether the decision to grant cash assistance had the Minister's or Cabinet approval. Though Government spokesmen initially deposed before the Committee that assessment at a very senior level was made and 'approval at the highest level was obtained', the Committee were subsequently informed that it had not been possible to locate the relevant papers in order to say at what level the scheme was finally approved. The Finance representative has stated in this context as follows:

'The matter did go to the highest level once. After that there were some discussions. But before the final orders were issued whether they again got the final clearance is a matter to be checked up'.

Since the position in this regard has not been satisfactorily explained, the Committee desire a more specific clarification."

1.9. The Action Taken Note* dated 21 September 1976, furnished by the Ministry of Commerce (Department of Textiles) with reference to these observations, is reproduced below:

"In spite of our strenuous and repeated efforts, it has not been possible to locate the papers. In the circumstances, it is regretfully submitted that it has not been possible to say with any degree of certainty the level at which the scheme was approved."

1.10. It is somewhat mystifying that the Department of Textiles have not been in a position to vouch, with any degree of certainty, for the level at which the ad hoc scheme for the grant of cash assistance for export of man-made fabrics was finally approved. The Committee, thus, have not been able to satisfy themselves whether Government's specific approval had been obtained for the grant of an assistance which, from what the Committee could ascertain, appears irrational and unwarranted. Though it has been stated by the Department that the relevant papers could not be located in spite of 'strenuous and repeated efforts', the Committee consider it strange that important papers leading to the decision to grant massive assistance to a chosen few who had exported their products through the instrumentality of the State Trading Corporation should have disappeared, as it were, without leaving trace behind. Since Government departments are certainly expected to take all necessary steps to ensure the safe and careful preservation of important papers/documents relating to policies of Government, and since the manner in which this particular scheme was conceived and implemented has also given rise to serious misgivings in the mind of the Committee, they must insist upon an investigation into the circumstances in which these papers had been misplaced/lost, with a view to fixing responsibility for lapses, if any are found. Effective remedial measures should also be taken by the Department to obviate the recurrence of such losses of important papers/files.

Non-scrutiny of the cash assistance scheme by the Finance Ministry (Paragraph 1.112—Sl. No. 8).

1.11. The Committee, during the course of their examination of the Audit paragraph, had found that while grants given in the case

* The Committee were informed by Audit in this connection that the Department's reply was not susceptible of verification by them.

of cotton textiles from the Marketing Development Fund were subjected to strict scrutiny by the Ministry of Finance, the assistance given by the State Trading Corporation for exports of man-made fabrics had been extended more or less on an *ad hoc* basis without any detailed scrutiny in the Finance Ministry. Commenting on the non-scrutiny of the scheme by the Finance Ministry, the Committee, in paragraph 1.112 of their Report, had observed:

“Even though grants from the Marketing Development Fund are required to be subjected to strict scrutiny by the Ministry of Finance, the Committee are surprised that in this particular case the specific approval of that Ministry to the scheme of cash assistance had not been obtained. It has, however, been stated that the whole scheme was submitted to the Committee of Secretaries of which the Secretary, Ministry of Finance, was a member and that as the scheme had been approved by that Committee, it could be said that Finance had agreed to the scheme. The Committee are somewhat perplexed by this explanation. Merely because the Finance Secretary was represented on the Committee of Secretaries, this does not obviate the need for a detailed scrutiny in the Finance Ministry and obtaining approval of that Ministry. If, as stated by the State Trading Corporation, the assistance provided in the case of textiles out of the Marketing Development Fund are subjected to ‘strict scrutiny’ by the Finance Ministry, the reasons for making a deviation in the case of man-made fabrics are somewhat intriguing.”

1.12. In their Action Taken Note dated 21 September 1976 relevant to these observations, the Ministry of Commerce (Department of Textiles) have replied:

“It is submitted that normally before a matter is considered by the Committee of Secretaries, a detailed paper on the subject to be discussed is circulated to all concerned. Depending on the needs of the occasion, the concerned Secretary consults wherever necessary, officers under him before the meeting and helps in the process of collective decision making in the Committee. It may also happen that in some cases the concerned Secretary may not feel the necessity for sending the papers to the officers below for an examination. Nonetheless the decision of the Committee would be a collective decision taken with the ap-

proval of all the Ministries which were represented in the Secretaries Committee."

1.13. The Committee regret to have to say that the Department's attempt to justify the exclusion of the Finance Ministry from undertaking a detailed scrutiny of the scheme of cash assistance for exports of man-made fabrics amounts to little more than a laboured extenuation and is, for the most part, a repetition of what had been stated earlier during evidence tendered before the Committee. The Committee in their 178th Report had pointed out that the mere fact that the Finance Secretary was also a member of the Committee of Secretaries which had approved the scheme did not obviate the need for a detailed scrutiny in the Finance Ministry and for the specific concurrence and approval of that Ministry after such scrutiny. Its association with the formulation and implementation of the scheme could perhaps have ensured that the assistance was not extended indiscriminately, as appears to have happened in the present case, but on a more precisely thought-out foundation. In the Committee's view, the Ministry should not have been precluded in this manner from exercising its legitimate functions of sanctioning, after careful scrutiny, expenditure proposed to be incurred on an individual scheme of such large magnitude as the one under examination. The Committee are constrained to have to reiterate their earlier view that the real reasons for making a deviation from the generally accepted procedures and practices in the case of man-made fabrics remain unexplained. The peculiar procedure adopted in this case cannot be countenanced and the Committee would like to know if, as a special case, the Finance Secretary himself had not considered it necessary to have the scheme examined in detail by his Ministry.

Passive role played by the State Trading Corporation (Paragraph 1.114—Sl. No. 10).

1.14. In paragraph 1.114 of the Report, the Committee had further observed as follows:

"The Committee are surprised that though the State Trading Corporation seemed to have had a number of reservations in regard to the cash assistance scheme, certain data relating to cost and f.o.b. realisation were obtained from the Silk and Rayon Textiles Export Promotion Council only four years later, in July 1971, and the rates of cash assistance then reduced (the revised rates ranging from 5 per cent to 25 per cent of the f.o.b. realisation). Here again,

the data furnished by the Export Promotion Council had not been certified on the basis of any strict cost scrutiny and were not quite comprehensive. The data, nevertheless, indicated that cash assistance could be reduced without any adverse impact on exports. Though this action produced some results belatedly, the Committee are unable to appreciate the passive acquiescence of the State Trading Corporation for four years in a scheme that was *prima facie*, ill-conceived and unjustified."

1.15. In their reply furnished to these observations, in the relevant Action Taken Note dated 21 September 1976, the Ministry of Commerce (Department of Textiles) have stated:

"The observations of the Public Accounts Committee have been noted and are being communicated to the State Trading Corporation."

The Committee had also been informed subsequently, on 1 November 1976, when copies of the Action Taken Note, after vetting by Audit had been made available to them that these observations were being communicated to the State Trading Corporation.

1.16. This is one more instance of inadequate response to a pointed observation of the Committee. After a lapse of nearly six months, the Committee receive a mere intimation that their observations, made after careful study of the facts placed before them, in regard to the passive acquiescence, for four years of the State Trading Corporation in a scheme that was, *prima facie*, ill-conceived and unjustified were 'being communicated to the Corporation'. In view of the fact that the formulation and implementation of the scheme for granting cash assistance for exports of man-made fabrics had given rise to doubts and even suspicion of mala fide intentions, which needed to be allayed, the Committee had wanted a more positive and purposeful reaction from the Ministry as well as the State Trading Corporation. The Committee are unhappy over the entire position and ask for a further report in this regard. If the Committee's responsibility to Parliament and the country is to be adequately discharged, Government's response to their recommendations/observations should be explicit and helpful.

Indiscriminate continuance of the cash assistance scheme (Paragraphs 1.117 to 1.119—Sl. Nos. 13 to 15).

1.17. Dealing with the action taken by Government on the representations made periodically against the scheme of cash assis-

tance by the State Trading Corporation, who appeared to have had a number of reservations about the scheme, as well as the decision to continue the cash assistance at the then existing rates for one more year during 1972-73, pending an examination of relevant cost data by a Working Group or an independent agency, the Committee, in paragraphs 1.117 to 1.119 of their 178th Report, had made the following observations:

"1.117. There appears to have been considerable procrastination and inaction on the part of Government as well. Though the State Trading Corporation had been representing periodically against the scheme of cash assistance and Government had also been informed, in various meetings, from time to time, prior to August 1971, of the difficulties which the Export Promotion Council was experiencing in providing this necessary data no remedial measures were taken by Government till May 1972 when a working group, consisting of representatives of the Textile Commissioner and the State Trading Corporation, a Cost Accounts Officer of the Finance Ministry and the Secretary of the Silk and Rayon Textiles Export Promotion Council, was appointed to examine the cost data for representative export qualities submitted by the Council. The Committee regret that effective action had not been taken earlier against the industry which was resorting to evasive tactics, and for the discontinuance of the cash assistance which, from all accounts, was unwarranted."

"1.118. The Committee learnt with consternation that despite the fact that even the limited data furnished by the Export Promotion Council, in July 1971, clearly indicated that the cash assistance hitherto sanctioned was far from justified, Government decided, in a meeting with the Silk & Rayon Textiles Export Promotion Council on 6 March 1972, that cash assistance at the existing rates should continue for one year and that the cost data furnished by the Council, in February 1972, should be examined by a working group or an independent agency. What is even more disturbing is the fact that this decision, which resulted in the payment of cash assistance of Rs. 119.23 lakhs during 1972-73, had been taken by the Secretary, Foreign Trade, at a meeting in Bombay and communicated immediately and peremptorily without even obtaining the Minister's approval."

"1.119. The Committee find the cost data furnished by the Export Promotion Council in February 1972 to be not representative, being confined to only 14 out of the 29 parties to whom the form prescribed by the State Trading Corporation had been sent by the Council. Besides, the data had also not been certified by Chartered Accountants. The Committee have been informed in this connection that the 29 units had been selected on the basis of the specialisation they had acquired in the manufacture of certain exported qualities and that 15 of them had stated that the proforma was so complicated that they would not be able to give the cost data in the form in which it was desired. However, without making any attempts to ascertain the costs at least on the basis of the sample survey, the decision to extend the cash assistance for 1972-73 seems to have been taken on the somewhat tenuous ground that as the export trade had grown after much effort on the part of the Export Promotion Council; any uncertainty about the cash assistance scheme might have an adverse effect on the export trade. However, it was well-known by them that the rates of cash assistance already sanctioned were unrealistic and excessive. The Committee are of the view that Government should have, at that stage, attempted to collect further data and adequately reviewed the scheme instead of just indiscriminately extending it for another year. That this was not done indicates that the care and prudence expected of Government had been given the go-by."

1.118. The Action Taken Notes* furnished in pursuance of these observations by the Ministry of Commerce (Department of Textiles), on 21st September 1976, are reproduced below:—

Paragraph 1.117.

"Though the STC in their communication dated 29-7-1971 did raise certain general points against the continuance of the cash assistance on a substantial scale, they had stated in the same communication that a complete withdrawal would affect the exports. Their broad conclusion was that there was a case for pegging the basic cash assistance for

*The Committee were informed by Audit that the reply furnished by the Department to the observations contained in paragraph 1.118 of the 178th Report (5th Lok Sabha) was not susceptible of verification by them.

rayon goods at 25 per cent and the cash subsidy for other goods to be determined as and when the cost data was received. In their letter dated 2nd August 1971, the State Trading Corporation informed the Government of the decision of the Board of Directors of State Trading Corporation to limit the cash assistance till the end of December 1971. The Ministry in their reply dated 23rd August 1971 stated that such sudden discontinuance of cash assistance after 31st December 1971 would cause a serious setback to the exports of rayon and synthetic textiles, and that the objective of the Government was not to provide excessive cash assistance to boost up exports but the incentives to be fixed should not be at such low levels which would fail to stimulate exports. In November 1971 the State Trading Corporation was requested to consider the following measures to boost the exports of art silk textiles, in view of the Estimates Committee's observations regarding the fall in the exports of man-made textiles:

- (a) the revised rates of cash assistance should be examined and finalised urgently in the light of the export performance so far;
- (b) in order to impart continuity and stability to exports, the cash assistance scheme should be made applicable till 31-3-1973.

The State Trading Corporation was requested on 2nd February 1972 that cash assistance should be extended for a reasonable period, say for a period of six months and in the meanwhile the revised rates of cash assistance worked out. On the 10th February 1972, the State Trading Corporation informed the Ministry that they were in the final stages of scrutinising the costing figures furnished by the Silk and Rayon Textiles Export Promotion Council and that they would reach their final conclusions shortly. As the State Trading Corporation could not arrive at final conclusions till the end of February 1972, it was decided at the Secretary's level to continue the cash assistance beyond 31-3-1972. It was also decided to constitute a Working Group to scrutinise the cost data for representative export items.

From the facts stated above it would be seen that:—

- (i) State Trading Corporation did not completely object to the continuance of the Cash Assistance Scheme;

- (ii) The Ministry for valid reasons wanted the cash assistance scheme to be continued subject to the rates of cash assistance being suitably fixed on the basis of the relevant cost data.

In fact the working group submitted its final findings recommending continued cash assistance at the then existing rates."

Paragraph 1.118.

"The circumstances under which the cash assistance on the exports of man-made textiles was continued beyond 31-3-1972 have been explained in reply to para 1.117. Procedurally, for granting of cash assistance or continuation of cash assistance or modification of existing rates of cash assistance, approval of the Minister is not required. These matters are dealt with at the Secretary's level after following the necessary procedures in this regard. Hence it is submitted that there is no procedural irregularity in not obtaining the Minister's permission for continuation of the cash assistance."

Paragraph 1.119.

"The circumstances under which cash assistance on the export of art-silk textiles was continued beyond 31-3-1972 have been explained in reply to para 1.117. The Working Group had also subsequently confirmed that the cash assistance rates allowed during 1972-73 was reasonable."

1.19. The Committee have gone into the elaborate reply furnished by the Department of Textiles to their observations in regard to the inability of Government in effectively tackling an industry which clearly was resorting to evasive tactics and in spite of it continued to benefit from an indiscriminate and unwarranted assistance. The Committee feel that whatever steps were taken by the Department had a strong and undeserved bias in favour of a recalcitrant industry and were unrealistic. Admittedly, the industry represented by the Silk & Rayon Textiles Export Promotion Council, had 'consistently' evaded, 'under one pretext or the other', the requests of the State Trading Corporation to furnish relevant cost data in support of its claims of losses incurred in the exports of man-made fabrics. The

said Corporation had also periodically expressed itself against the cash assistance scheme. The difficulties involved in the implementation of the scheme, in the absence of all relevant data, had also been brought to Government's notice even prior to August 1971. It has, however, been contended by the Department of Textiles that the State Trading Corporation while representing, in July 1971, against the continuance of the assistance on a substantial scale, had not completely objected to the continuance of the scheme as such. While this may perhaps be true to an extent, the Corporation nevertheless appears to have been clear in its mind, in July 1971 at least if not earlier, that the assistance was not justified on economic grounds. It had also gone on record, in unequivocal terms, in March 1972, in protest against the decision of the then Secretary, Foreign Trade, to extend peremptorily the assistance at the then existing rates upto March 1973, and to observe that even the reduced assistance of 25 per cent (introduced with effect from August 1971) was 'more than can be justified'. Besides, it is evident that the Corporation had had considerable reservation even in regard to the initial quantum of assistance, sanctioned from March 1967 to July 1971, at rates varying between 10 and 33 per cent of the f.o.b. realisations which, according to them, was based more on negotiation than on proven financial data, and that the decision to continue the assistance at reduced rates with effect from 1 August 1971 had been taken more on considerations of expediency than on any canons of financial prudence. In these circumstances, the argument that the State Trading Corporation 'did not completely object' to the scheme's continuance appears a formalistic stand which does not also have the saving grace of a contribution, in practical terms, to the long-term growth of our trade.

1.20. The Committee are not unwilling to concede that there was justification perhaps for the Department's anxiety to impart a kind of continuity and stability to the exports of man-made fabrics. It is, however, seen that even according to the Department's own thinking, the cash assistance scheme was to be continued only after the quantum of assistance had been suitably fixed on the basis of relevant cost data. It was well-known by then that the rates already sanctioned were not only unrealistic but also excessive. A fresh look at the entire question had also been necessitated by the increased import entitlements announced in Government's Registered Exporters Policy for 1971-72. Yet, strangely enough, in disregard of all these facts, a decision was taken by the then Secretary, Foreign Trade, in a meeting with the Export Promotion Council at Bombay, for the continuance of the assistance at the existing rates for one more year

upto March 1973. The reason for this extraordinary way of deciding matters has not been explained to the Committee's satisfaction. The Committee disapprove of the manner in which this issue has been handled and reiterate their earlier finding that Government had not exercised, in this case, the care and prudence normally expected of them.

1.21. It has been contended by the Department that the Working Group, appointed to examine the cost data for representative export qualities to be made available by the Silk & Rayon Textiles Export Promotion Council, had also subsequently confirmed that the cash assistance allowed during 1972-73 was reasonable. However, as pointed out in paragraph 1.120 of the 178th Report, the exercise carried out by the Working Group was only a haphazard attempt and also perfunctory, since it was not based on representative and entirely reliable data. This finding has not been disputed by the Department. The Committee are, therefore, unable to accept the Department's contention in this regard and are of the view that the extension of the cash assistance scheme during 1972-73 was unjustified and even indiscriminate.

1.22. As regards the peremptory extension of the scheme for the year 1972-73 by the Secretary, Foreign Trade, without even obtaining the Minister's approval, the Committee have been informed that, procedurally, the approval of the Minister is not required for granting cash assistance or for its continuance or for any modification of the existing rates of assistance. However, in view of the fact that the State Trading Corporation appeared to have genuine misapprehensions and reservations in regard to the scheme and also since the decision appeared to have been taken on somewhat tenuous grounds, the Committee feel that all the facts of the case ought to have been placed clearly before the Minister who could then have an opportunity to give his considered views on the entire question. Besides, since the assistance paid during each of the preceding two years had also exceeded a crore of rupees, the Committee are of the opinion that procedures and conventional practices apart, prudence as well as propriety demanded that such large expenditure was incurred only with the Minister's specific approval. Even procedurally, the Committee had been earlier informed by the Finance Secretary himself during their examination of paragraph 14(ii) of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes, that where the expenditure involved or the expenditure proposal is over Rs. 1 crore, then it is normally submitted to the Minister. In the circumstances, the Committee find it difficult to reconcile them-

selves to the Department's present reply. In any case, they would urge that the feasibility of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval, should be appropriately examined.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

It is evident from the Audit paragraph and an analysis of the evidence tendered before the Committee that the cash assistance sanctioned from time to time, for exports of man-made fabrics, had been provided in an indiscriminate and even irrational manner, on the basis of *ad-hoc* incomplete assessments, that had little or no relevance to the realities of the situation. The Committee regret that a "massive assistance" totalling about Rs. 1182 lakhs should have been allowed during the period 1968-69 to 1973-74, on the basis of inadequate cost scrutiny and hypothetical assumptions, to an industry that contributes only 2 per cent of its production to the export efforts of the country. Some of the deficiencies and defects in the conception and operation of the cash assistance scheme which have come to the Committee's notice are discussed in the succeeding paragraphs.

[S. No. 1 (Para-1.105) of Appendix I to the 178th Report of
P.A.C. (Fifth Lok Sabha)].

***Action Taken**

The observations of the Public Accounts Committee have been noted. It may, however, be mentioned that payment of Cash Assistance of Rs. 1182 lakhs during the period 1968-69 to 1973-74 had resulted in export of about Rs. 6029 lakhs worth of man-made fabrics, a non-traditional item of export, through the State Trading Corporation. It is respectfully submitted that cash assistance may kindly be viewed against exports of the commodity rather than against production in the country.

[Ministry of Commerce/Department of Textiles O.M.
No. 12011 64/76-Tex(V) dated 1-11-1976].

*The Committee were informed by Audit in this connection that the figure of Rs. 6029 lakhs for export could not be verified from the Ministry's files.

Recommendation

Cash assistance is normally intended to bridge the gap between the cost of production of an export product and the f.o.b. realisation. The Committee note with concern that while sanctioning cash assistance in 1967, almost immediately after the devaluation of the Rupee, for the export of man-made fabrics at rates varying between 10 per cent and 33 per cent of the f.o.b. realisation, the State Trading Corporation had not taken into account the actual cost and f.o.b. realisation but had adopted an *ad-hoc* approach. No doubt, the Commerce Ministry have contended that the approach was not *ad-hoc* and that when the scheme of cash assistance was started in 1967, 'it had to be introduced on some assessment which was made at that time'. In the Committee's view, this is only an attempt at extenuation since according to the Corporation's own admission, in August 1971, while grants from the Marketing Development Fund were governed by strict scrutiny by the Ministry of Finance, assistance by the State Trading Corporation had been more or less on an *ad-hoc* basis and had not been subjected to cost scrutiny. Emphasising the need for cost scrutiny, the Corporation had gone on to observe:—

"This we feel is essential lest there be a question asked by Parliament or its Committees about the basis for a public sector agency favouring an industry with such massive assistance of over a crore of rupees for an export of mere 3-4 crores, without having before it a cost structure of the industry justifying such assistance both in principle and the quantum".

Again, on 9th March, 1972, the Corporation had pointed out:

"The industry has put State Trading Corporation in a vulnerable position because if State Trading Corporation is asked by a public committee about the basis on which it gave assistance of 33 per cent we can only plead that it was a matter of negotiation rather than proven financial data".

Besides, the Secretary, Export Production himself made a tacit admission during evidence that the State Trading Corporation had felt, in 1971, that the cash assistance given by them would not have been arrived at on the basis of 'a strict cost scrutiny' and had, therefore, wanted that the cash assistance problem should be looked at *de novo*. This according to him, brought some results although belatedly."

[S. No. 2-(Para-1.106) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)].

Action Taken

The observations of the Public Accounts Committee have been noted.

[Ministry of Commerce/Department of Textiles O.M.
No. 12011/64/76-*Tex*(V) dated 1-11-1976].

Recommendation

If, as has been claimed, the assistance decided upon in 1967 had been based on a proper and complete assessment, the necessity for the Ministry subsequently considering it advisable to reduce the cash assistance, where necessary, based upon a 'more scientific analysis' of the costs of production *vis-a-vis* f.o.b. realisation by exporters are not clear to the Committee. That such a review was considered necessary would indicate that whatever assessment were made earlier were inadequate. It has also been admitted that in the initial period, it was not possible for the State Trading Corporation, Silk and Rayon Textiles Export Promotion Council or the Textile Commissioner to obtain 'precise cost data, quality-wise, from the industry's and as such, from the very start (i.e., from March, 1967)', the State Trading Corporation had 'no alternative but to extend cash support on the basis of cost data collected by the Silk and Rayon Textiles Export Promotion Council, even though they were not fully representative'. In the circumstances, the Committee are unable to accept the Ministry's contention in this regard. It is clear that the initial quantum of cash assistance had not been based on any scientific assessment.

[S. No. 3 (Para-1.107) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)].

Action Taken

The observations of the Public Accounts Committee have been noted.

[Ministry of Commerce/Department of Textiles O.M.
No. 12011 64 76-*Tex*(V) dated 1-11-1976].

Recommendation

It has also been contended by the representatives of the Commerce Ministry that this scheme was not directly one of cash assistance by Government and involved no outgo from the Consolidated Fund of India, but was financed out of a fund built up by the State Trading Corporation out of earnings from its raw material sales. This

argument is, in the opinion of the Committee, quite irrelevant to the basic issues of principle involved in this transaction. It is pertinent in this context, that the State Trading Corporation has claimed to have incurred a net loss of Rs. 434.68 lakhs on this account during the period 1967-68 to 1972-73 and has demanded reimbursement of the losses by Government and a final decision in this regard is yet to be taken. It would, therefore, follow that in the event of a decision being taken to reimburse these losses from the public funds, there would, in fact, be an outflow from the Consolidated Fund of India. In any case, even if the losses are finally borne by the State Trading Corporation, the fact would still remain that funds of a public undertaking had been expended injudiciously.

[S. No. 5 (Para-1.109) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)].

Action Taken

The observation of the Public Accounts Committee have been noted.

[Ministry of Commerce/Department of Textiles O.M. No. 12011/64/76-Text(V) dated 1-11-1976].

Recommendation

The rationale for operating the cash assistance scheme through the agency of a public sector corporation and confining the assistance only to a chosen few who exported their products through the State Trading Corporation are not clear to the Committee. Whatever the justification or otherwise of such a course, the accountability of the executive gets necessarily reduced if the assistance is channelled through an autonomous corporation and to that extent Parliamentary scrutiny of executive actions can be evaded. This is, on principle, undesirable and the Committee would like to know if, as conceivably a special case, Parliament had given prior approval to the decision to provide such massive assistance to the man-made fibre industry.

[S. No. 6(Para-1.110) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)].

***Action Taken**

For payment of cash assistance out of the funds of a public sector undertaking, the Parliament's approval does not seem to be necessary. Observations of the Committee that accountability of the ex-

*The Committee were informed by Audit in this connection that the reply to the effect that 'no cash assistance on export of any commodity is given by the STC now' could not be verified.

ecutive gets necessarily reduced if the assistance is channelled through autonomous Corporations' is noted. It may, however, be mentioned that no cash assistance on export of any commodity is given by the STC now.

[Ministry of Commerce/Department of Textiles O.M.
No. 12011/64/76-Text(V) dated 1-11-1976].

Recommendation

The Committee find that in determining the quantum of cash assistance the Corporation had not taken into account the profits accruing to the industry from the lucrative internal market and the subsidy on imported yarn and other incentives then available. Besides, when certain enquiries were started by the State Trading Corporation in May 1971, the Corporation had found that in the case of rayon fabrics which constitute 75 per cent of the total yardage exported or two-thirds of the value of the exports, the industry received raw materials at prices which were probably below the international prices and that they had certain other benefits in the matter of replenishment licences for dyes and chemicals. To determine the quantum of cash assistance, no studies appear to have been made on the basis of costs of production, but reliance was presumably placed instead on the prices prevailing in the domestic market which, in any case, were bound to have been inflated on account of domestic profitability. It is to be regretted that the State Trading Corporation moved so slackly in this matter.

[S. No. 9(Para-1.113) of Appendix I to the 178th Report of P.A.C.
(Fifth Lok Sabha)].

***Action Taken**

The observations of the PAC have been noted and have been communicated to the State Trading Corporation.

[Ministry of Commerce/Department of Textiles O.M.
No. 12011/64/76-Text(V) dated 1-11-1976].

*The Committee were informed by Audit in this connection that the action taken in the matter could not be verified as the relevant correspondence was not made available.

Recommendation

What is more distressing is that even though the State Trading Corporation concluded, on the basis of the data made available by the Council in July, 1971, that the cash assistance was not justified on economic grounds, it was considered 'in expedient' to withdraw the assistance at once in view of the fact that the exporters had been receiving 'massive assistance' in the past. In fact, the Corporation had gone to the extent of observing, in March, 1972 that even the assistance of 25 per cent was 'more than can be justified'. It is positively disconcerting that mere expediency should have taken precedence over principles of financial prudence.

[S. No. 11(Para-1.115) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)].

Action Taken

The observations of the Public Accounts Committee have been noted and are being communicated to State Trading Corporation.

[Ministry of Commerce/Department of Textiles O.M. No. 12011/64 76-Text (V) dated 1-11-1976].

Recommendation

The Committee consider it strange that though the data finally furnished by the Export Promotion Council, after 'consistently' evading, 'under one pretext or the other', the requests of the State Trading Corporation to furnish data signed by their own Chartered Accountant was found to be "practically worthless by the Corporation, the cash assistance, though at reduced rates, should have been persisted with. The Committee are amazed to learn that a loss as high as 90 per cent in some instances had been claimed by the Council. It is obvious that the data had been excessively inflated. As the State Trading Corporation itself pointed out, in March, 1972, 'it is either incredible that anyone could have exported at such a loss or impractical that despite the assistance of 25 per cent we should be exporting something where there is a total loss of 90 per cent.'

[S. No. 12 (1.116) of Appendix I to the 178th Report of Public Accounts Committee (Fifth Lok Sabha)].

Action Taken

The observations of Public Accounts Committee have been noted.

[Ministry of Commerce/Department of Textiles O.M. No. 12011/64/76-Text (V) dt. 1-11-1976].

Recommendation

The subsequent examination undertaken by the Working Group, on the basis of which it was decided to extend the scheme of cash assistance during 1973-74, was also, unfortunately, only a haphazard attempt. The group had obtained cost data, which were also not certified by any Chartered Accountant, only from three manufacturers of fabrics. Although the working group visited these three mills, it did not undertake, 'due to limitation of time', any detailed checking of data with accounts books but considered the result of its sample-checking as 'more or less satisfactory'. There appears to have been some difference of opinion between the Senior Cost Accounts Officer of the Finance Ministry and the other members of the working group in regard to the correctness of the cost data, and the former remarked, in October, 1972, that 'he had not had the full opportunity of going through the data'. However, subsequently, before the report of the group was finalised in December, 1972, the Cost Accounts Officer is stated to have visited some of the units and after analysing the data collected worked out both the total cost and the marginal cost. The Committee find that while endorsing the recommendation of the working group that cash assistance should be continued at the existing level the representative of the State Trading Corporation had also recorded a separate note stressing that the cost data given by the industry were not 'fully representative'. Whatever might have been the differences between the members of the working group, it is evident that the exercise carried out in 1972 was also perfunctory, since it was not based on representative and entirely reliable data.

[S. No. 16 (Para—1.120) to Appendix I to the 178th Report of P.A.C.
(Fifth Lok Sabha)]

Action Taken

The observations of the Public Accounts Committee have been noted.

[Ministry of Commerce|Department of Textiles O.M. No. 12011 64'
76-Tex(V) dt. 1-11-1976]

Recommendation

To sum up, the Committee find that during the period from 1968-69 to 1972-73, a total amount of Rs. 473.75 lakhs had been paid by the State Trading Corporation as cash assistance for exports of man-made fabrics, against which exports valued at Rs. 2643.77 lakhs had

been canalised through the Corporation. It was estimated that an assistance of Rs. 708.24 lakhs would be payable in 1973-74 against the expected exports valued at Rs. 3385.08 lakhs. Since a major portion of these exports were to Rupee Payment countries and the industry had also been extended various other concessions by way of replenishment licences, supply of imported yarn at subsidised rates, excise drawback, etc., the net gain which accrued to the country as foreign exchange is anybody's guess. As has been pointed out earlier, only 2 per cent of the industry's production has been exported. The scheme has also resulted in a net loss of Rs. 434.68 lakhs during the period 1967-68 to 1972-73, to the State Trading Corporation. Taking all the relevant factors into consideration, it is a moot point whether this export promotion effort has at all been worthwhile. Now that the scheme has been discontinued with effect from 1st April, 1974, the Committee trust that Government have become wiser at least after the event and would ensure that in future at any rates such assistance is not extended indiscriminately but on a more precisely thought-out foundation.

[S. No. 20 (Para—1.124) of Appendix I to the 178th Report of Public Accounts Committee (Fifth Lok Sabha)]

Action Taken

The observations of the Public Accounts Committee have been noted for compliance.

[Ministry of Commerce|Department of Textiles O.M. No. 12011/64|
76-Tax(V) dt. 1-11-1976]

CHAPTER III

RECOMMENDATIONS|OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

The value of the exports of man-made fabrics effected through State Trading Corporation was Rs. 189.69 lakhs in 1968-69, Rs. 355.44 lakhs in 1969-70, Rs. 497.29 lakhs in 1970-71, Rs. 625.39 lakhs in 1971-72 and Rs. 976.00 lakhs in 1972-73 and the cash assistance paid during each of the years was respectively Rs. 50.73 lakhs, Rs. 90.82 lakhs, Rs. 106.97 lakhs, Rs. 106.00 lakhs and Rs. 119.23 lakhs. Strangely, however, it was estimated that the value of exports during 1973-74 (the last year in which the cash assistance scheme was in operation before it was discontinued with effect from 1st April, 1974) would be Rs. 3385.08 lakhs, involving an estimated payment of Rs. 708.24 lakhs as cash assistance, representing an increase of nearly 600 per cent over the previous year's payment. Since such a phenomenal increase is somewhat inexplicable and gives rise to suspicion that the scheme was perhaps exploited, to their own advantage, by unscrupulous exporters, the Committee desired that the reasons for this unprecedented spurt in exports and the payment of a large sum as cash assistance should be thoroughly probed with a view to fixing responsibility for lapses, if any. [The Committee would await a detailed report in this regard.

[S. No. 17 (Para—1.121) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)]

***Action Taken**

There was increase in the quantum of exports and also in the unit value realisation during the year 1973-74 compared to the earlier years. The unit value realised went up from Rs. 2.96 per metre in 1972-73 to Rs. 3.24 per metre in 1973-74 because of the sudden increase in the world prices of man-made textiles due to oil crisis. Further, the year 1973-74 was a booming period for international trade in man-made textiles. The cumulative result was increase in

*The Committee were informed by Audit in this connection that the Department's reply could not be verified.

the export of artsilk textiles to a figure of Rs. 33.85 crores in the year 1973-74 from Rs. 9.7 crores in 1972-73. This figure of Rs. 33.85 crores is insignificant compared to the exports of man-made textiles of even small countries like Taiwan and Korea which was at least 20 times higher than that of Indian exports. In artsilk textiles, the bulk of exports are of viscose items. The rate of cash assistance on the export of viscose fabrics was actually reduced with effect from 1-8-1971 from rates varying between 30-33 per cent to 25 per cent. It is this reduced rate of 25 per cent which was continued for the year 1973-74 as well. Considering the value of the exports and the rates of cash assistance for the year 1973-74, the quantum of cash assistance given is justified. There is no reason to suspect that any undue benefit has been reaped by the exporters. In the circumstances it is submitted that the question of fixation of responsibility would not seem to arise.

[Ministry of Commerce/Department of Textiles O.M. No. 12011/64/
76-Tex(V) dt. 1-11-1976]

Recommendation

Another important issue arising out of this case is the absence of any mechanism to ensure that the benefit of cash assistance reaches the large number of small units producing man-made fabrics and is not appropriated, as they are now, by the middlemen merchant-exporters. The Committee find that in 1969-70 there were eight exporters who claimed exports of over Rs. 10 lakhs each and they accounted for 54 per cent of the total exports. Of these eight, five were merchant-exporters who accounted for 28 per cent of the total exports. As against this, out of the total number of 11,598 manufacturing units, about 9,406 units are small, having less than 10 looms. It would, therefore, appear that the major beneficiaries of the cash assistance scheme were the merchant-exporters. The Committee have been informed that Government was not in a position to determine the extent to which the cash assistance might have benefited the small manufacturers and that Government had no means of ensuring it either. This, in the Committee's view, is an extraordinary and undesirable situation. The Committee would urge Government to bestow serious thought on this question and evolve a mechanism by which the large number of small manufacturers, who export their goods through merchant-exporters, are also benefited by the scheme of cash assistance extended to various export commodities.

[S. No. 18 (Para—1.122) of Appendix I to the 178th Report of P.A.C.
(Fifth Lok Sabha)]

***Action Taken**

The merchant exporters either buy the cloth from the small manufacturers at the market prices or have arrangements with them for the manufacture of fabrics at agreed conversion charges. The small manufacturers sell their fabrics or convert the yarn into fabrics at certain agreed conversion charges at the prevalent market rates. The merchant-exporters enter into export transactions taking into consideration, factors like the indigenous purchase price FOB price and the incentive offered on exports like cash assistance etc. As cash assistance is paid to the exporters no portion of it can be transferred directly by State Trading Corporation or the Government to the small manufacturers. However, in a booming market where the exporters can make good profits, the indigenous manufacturers also will be benefitted by getting more orders and better prices.

[Ministry of Commerce/Department of Textiles O.M.No 12011/64-76-Tex(V) dt. 1-11-1976].

Recommendation

From the foregoing paragraph, it is clear that the manner in which the entire question of granting cash assistance on exports of man-made fabrics had been handled from time to time was neither proper nor satisfactory, and that the entire scheme had been hastily conceived without an adequate assessment of the various factors involved. A number of other acts of omission and commission, which came out during evidence, have raised serious misgivings in the mind of the Committee. Though many opportunities were available to Government to review and reconsider the scheme, little was done to retrieve the situation. The Committee, in particular, take a serious view of the extension of the scheme, in March, 1972, to the exports during 1972-73 without even obtaining the Ministers' approval. Since a number of substantive issues have been raised in the preceding paragraph, the Committee desire that the circumstances in which an apparently ill-thought-out scheme was persisted with for as long as seven years should be carefully examined and responsibility for the various lapses fixed under advice to the Committee.

[S. No. 19 (Para—1.123) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)]

*The Committee were informed by Audit in this connection that the reply furnished by the Ministry was not susceptible of verification by them.

Action Taken

The circumstances under which cash assistance to exporters of man-made textiles was granted originally and extended from time to time including that in March, 1972 have already been explained. The cash assistance scheme was originally approved by a Committee of Secretaries. The Scheme was extended in March, 1972 as per decision taken by the then Commerce Secretary, who is no longer alive. Under the circumstances, it is not possible to fix the responsibility for the decisions taken regarding grant of cash assistance. The observations of the PAC have been noted for compliance in future.

[Ministry of Commerce/Department of Textiles O.M.No. 12011/64/76-Text(V) dt 1-11-1976]

*The Committee were informed by Audit in this connection that the Department's reply as per last but two sentences is not verifiable by them.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

Cash assistance is also usually restricted to 25 per cent of the 'value added' which is the amount arrived at by deducting the value of the import content from the f.o.b. realisation. While this principle ensures that the assistance has some direct relevance and relation to the net foreign exchange earned and is applied for all assistance given from the Marketing Development Fund, the Committee find that the cash assistance sanctioned in respect of man-made fabrics was not worked out with reference to the 'added value'. In justification thereof, it has been stated that this particular assistance was not provided out of the Marketing Development Fund. Since the same principle ought to apply, irrespective of the source of finance, it is not clear to the Committee why this sound principle was given go by in the case of exports of man-made fabrics.

[S. No. 4 (Para-1.108) of Appendix I to the 178th Report of P.A.C.
(Fifth Lok Sabha)].

Action Taken

The observations of the Committee are noted.

[Ministry of Commerce/Department of Textiles O.M.No. 12011/64/
76-Text(V) dt 1-11-1976]

Recommendation

Apart from issuing certain broad guidelines to the State Trading Corporation in regard to the administration of the scheme of cash assistance, Government had, admittedly left the modalities of implementation and the determination of the actual quantum of cash assistance to the discretion of the former. The State Trading Corporation, on its part, had not even obtained Government's specific approval for the grant of what, *prima facie*, appears to be an *ad hoc* assistance, and had only kept the Government informed'. It is also not clear from the evidence whether the decision to grant cash assistance had the Minister's or Cabinet approval. Though Government spokesmen in-

initially deposed before the Committee that assessment at a very senior level was made and 'approval at the highest level was obtained', the Committee were subsequently informed that it had not been possible to locate the relevant papers in order to say at what level the scheme was finally approved. The Finance representative has stated in this context as follows:—

"The matter did go to the highest level once. After that there were some discussions. But before the final orders were issued whether they again got the final clearance is a matter to be checked up."

Since the position in this regard has not been satisfactorily explained, the Committee desire a more specific clarification.

[S. No. 7 (Para-I, 111) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)]

***Action Taken**

In spite of our strenuous and repeated efforts, it has not been possible to locate the papers. In the circumstances, it is regretfully submitted that it has not been possible to say with any degree of certainty the level at which the scheme was approved.

[Ministry of Commerce/Department of Textiles O.M.No. 12011/64/76-Tex (V) dt 1-11-1976]

Recommendation

Even though grants from the Marketing Development Fund are required to be subjected to strict scrutiny by the Ministry of Finance, the Committee are surprised that in this particular case the specific approval of that Ministry to the scheme of cash assistance had not been obtained. It has, however, been stated that the whole scheme was submitted to the Committee of Secretaries of which the Secretary, Ministry of Finance, was a member and that as the scheme had been approved by that Committee, it could be said that Finance had agreed to the scheme. The Committee are somewhat perplexed by this explanation. Merely because the Finance Secretary was represented on the Committee of Secretaries, this does not obviate the need for a detailed scrutiny in the Finance Ministry and obtaining approval of that Ministry. If, as stated by the State Trad-

*The Committee were informed by Audit in this connection that the reply furnished by the Ministry was not susceptible of verification by them.

ing Corporation, the assistance provided in the case of textiles out of the Marketing Development Fund are subjected to 'strict scrutiny' by the Finance Ministry, the reasons for making a deviation in the case of man-made fabrics are somewhat intriguing.

[S. No. 8 (Para 1.112) of Appendix I to the 178th Report of P.A.C.
(Fifth Lok Sabha)].

Action Taken

It is submitted that normally before a matter is considered by the Committee of Secretaries, a detailed paper on the subject to be discussed is circulated to all concerned. Depending on the needs of the occasion, the concerned Secretary consults wherever necessary officers under him before the meeting and helps in the process of collective decision-making in the Committee. It may also happen that in some cases the concerned Secretary may not feel the necessity for sending the papers to the officers below for an examination. Non-the-less the decision of the Committee would be a collective decision taken with the approval of all the Ministries which were represented in the Secretaries/Committee.

[Ministry of Commerce/Department of Textiles O.M. No. 12011/64/
76-Tex(V) dt. 1-11-1976].

Recommendation

The Committee are surprised that though the State Trading Corporation seemed to have had a number of reservations in regard to the cash assistance scheme, certain data relating to cost and f.o.b. realisation were obtained from the Silk & Rayon Textiles Export Promotion Council only four years later, in July 1971, and the rates of cash assistance then reduced (the revised rates ranging from 5 per cent to 25 per cent of the f.o.b. realisation). Here again, the data furnished by the Export Promotion Council had not been certified on the basis of any strict cost scrutiny and were not quite comprehensive. The data, nevertheless, indicated that cash assistance could be reduced without any adverse impact on exports. Though this action produced some results belatedly, the Committee are unable to appreciate the passive acquiescence of the State Trading Corporation for four years in a scheme that was *prima facie*, ill-conceived and unjustified.

[S. No. 10 (Para 1.114) of Appendix I to the 178th Report of P.A.C.
(Fifth Lok Sabha)].

Action Taken

The observations of the Public Accounts Committee have been noted and are being communicated to the State Trading Corporation.

[Ministry of Commerce/Department of Textiles O.M.No. 12011/64/
76-Tax(V) dt. 1-11-1976].

Recommendation

There appears to have been considerable procrastination and inaction on the part of Government as well. Though the State Trading Corporation had been representing periodically against the scheme of cash assistance and Government had also been informed, in various meetings, from time to time, prior to August 1971, of the difficulties which the Export Promotion Council was experiencing in providing the necessary data, no remedial measures were taken by Government till May, 1972 when a working group, consisting of representatives of the Textile Commissioner and the State Trading Corporation, a Cost Accounts Officer of the Finance Ministry and the Secretary of the Silk and Rayon Textiles Export Promotion Council, was appointed to examine the cost data for representative export qualities submitted by the Council. The Committee regret that effective action had not been taken earlier against the industry which was resorting to evasive tactics, and for the discontinuance of the cash assistance which from all accounts, was unwarranted.

[S. No. 13 (Para—1.117) of Appendix I to the 178th
Report of P.A.C. (Fifth Lok Sabha)].

Action Taken

Though the S.T.C. in their communication dated 29-7-1971 did raise certain general points against the continuance of the cash assistance on a substantial scale, they had stated in the same communication that a complete withdrawal would affect the exports. Their broad conclusion was that there was a case for pegging the basic cash assistance for rayon goods at 25 per cent and the cash subsidy for other goods to be determined as and when the cost data was received. In their letter dated 2nd August, 1971, the State Trading Corporation informed the Government of the decision of the Board of Directors of State Trading Corporation to limit the cash assistance till the end of December, 1971. The Ministry in their reply dated 23rd August, 1971 stated that such sudden discontinuance of cash assistance after 31st December, 1971 would

cause a serious setback to the exports of rayon and synthetic textiles, and that the objective of the Government was not to provide excessive cash assistance to boost up exports but the incentives to be fixed should not be at such low levels which would fail to stimulate exports. In November, 1971 the State Trading Corporation was requested to consider the following measures to boost the exports of art silk textiles, in view of the Estimates Committee's observations regarding the fall in the exports of man-made textiles:—

- (a) the revised rates of cash assistance should be examined and finalised urgently in the light of the export performance so far.
- (b) in order to impart continuity and stability to exports, the cash assistance scheme should be made applicable till 31-3-1973.

The State Trading Corporation was requested on 2nd February, 1972 that cash assistance should be extended for a reasonable period, say for a period of six months and in the meanwhile the revised rates of cash assistance worked out. On the 10th February, 1972, the State Trading Corporation informed the Ministry that they were in the final stages of scrutinising the costing figures furnished by the Silk and Rayon Textiles Export Promotion Council and that they would reach their final conclusions shortly. As the State Trading Corporation could not arrive at final conclusions till the end of February, 1972, it was decided at the Secretary's level to continue the cash assistance beyond 31-3-1972. It was also decided to constitute a Working Group to scrutinise the cost data for representative export items.

From the facts stated above it would be seen that:—

- (i) State Trading Corporation did not completely object to the continuance of the Cash Assistance Scheme;
- (ii) The Ministry for valid reasons wanted the cash assistance scheme to be continued subject to the rates of cash assistance being suitably fixed on the basis of the relevant cost data.

In fact the working group submitted its final findings recommending continued cash assistance at the then existing rates.

[Ministry of Commerce/Department of Textiles,
O.M. No. 12011/64/76-Tex (V), dated 1-11-1976].

Recommendation

The Committee learnt with consternation that despite the fact that even the limited data furnished by the Export Promotion Council, in July, 1971, clearly indicated that the cash assistance hitherto sanctioned was far from justified, Government decided, in a meeting with the Silk and Rayon Textiles Export Promotion Council on 6th March, 1972, that cash assistance at the existing rates should continue for one year and that the cost data furnished by the Council, in February, 1972, should be examined by a working group or an independent agency. What is even more disturbing is the fact that this decision, which resulted in the payment of cash assistance of Rs. 119.23 lakhs during 1972-73, had been taken by the Secretary, Foreign Trade, at a meeting in Bombay and communicated immediately and peremptorily without even obtaining the Minister's approval.

[S. No. 14 (Para—1.118) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)].

*Action Taken

The circumstances under which the cash assistance on the exports of man-made textiles was continued beyond 31-3-1972 have been explained in reply to para-1.117. Procedurally, for granting of cash assistance or continuation of cash assistance or modification of existing rates of cash assistance, approval of the Minister is not required. These matters are dealt with at the Secretary's level after following the necessary procedures in this regard. Hence it is submitted that there is no procedural irregularity in not obtaining the Minister's permission for continuation of the cash assistance.

[Ministry of Commerce Department of Textiles, O.M. No. 12011 64 76-Tex (V), dated 1-11-1976].

Recommendation

The Committee find that cost data furnished by the Export Promotion Council in February, 1972 to be not representative, being confined, to only 14 out of the 29 parties to whom the form prescribed by the State Trading Corporation had been sent by the Council. Besides, the data had also not been certified by Chartered Accountants. The Committee have been informed in this connection

*The Committee were informed by Audit in this connection that the reply furnished by the Ministry was not susceptible of verification by them.

that the 29 units had been selected on the basis of the specialisation they had acquired in the manufacture of certain exported qualities and that 15 of them had stated that the proforma was so complicated that they would not be able to give the cost data in the form in which it was desired. However, without making any attempts to ascertain the costs at least on the basis of the sample survey, the decision to extend the cash assistance for 1972-73 seems to have been taken on the somewhat tenuous ground that as the export trade had grown after much effort on the part of the Export Promotion Council, any uncertainty about the cash assistance scheme might have an adverse effect on the export trade. However, it was well known by then that the rates of cash assistance already sanctioned were unrealistic and excessive. The Committee are of the view that Government should have, at that stage, attempted to collect further data and adequately reviewed the scheme instead of just indiscriminately extending it for another year. That this was not done indicates that the care and prudence expected of Government had been given the go-by.

[S. No. 15 (Para—1.119) of Appendix I to the 178th Report of P.A.C. (Fifth Lok Sabha)].

Action Taken

The circumstances under which cash assistance on the export of artsilk textiles was continued beyond 31-3-1972 have been explained in reply to Para-1.117. The Working Group had also subsequently confirmed that the cash assistance rates allowed during 1972-73 was reasonable.

[Ministry of Commerce/Department of Textiles O.M. No. 12011/64/76-Tex(V) dt. 1-11-1976].

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

NIL

NEW DELHI;
November 15, 1977.

Kartika 24, 1899 (S).

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

APPENDIX

Conclusions/Recommendations

S. No.	Para No.	Ministry Concerned	Conclusions/Recommendations
1	2	3	4
1	1.7	Ministry of Commerce	<p>The Committee have often before emphasised the need for a positive and helpful reaction on the part of the administration to their recommendations/observations and for ensuring that the Action Taken Notes sent in response to their reports are explicit and categorical. Ministries/Departments still choose, however, to intimate that the Committee's observations have been 'Noted'. This happens even where specific facts or clarifications are called for. The Committee, in paragraph 1.108 of their 178th Report (Fifth Lok Sabha), had specifically wanted to know the reasons for not working out the cash assistance sanctioned in respect of man-made fabrics with reference to the 'value added'. In spite of it, the Department of Textiles have maintained a non-committal silence on this question. The position in this regard requires forthwith to be clarified. The Committee would also invite attention to the observations contained in paragraph 1.39 of their 220th Report (Fifth Lok Sabha) which are pertinent in this context.</p>

1

2

3

4

2

1.10

Ministry of Commerce

It is somewhat mystifying that the Department of Textiles have not been in a position to vouch, with any degree of certainty, for the level at which the *ad hoc* scheme for the grant of cash assistance for export of man-made fabrics was finally approved. The Committee, thus, have not been able to satisfy themselves whether Government's specific approval had been obtained for the grant of an assistance which, from what the Committee could ascertain, appears irrational and unwarranted. Though it has been stated by the Department that the relevant papers could not be located in spite of 'strenuous and repeated efforts', the Committee consider it strange that important papers leading to the decision to grant massive assistance to a chosen few who had exported their products through the instrumentality of the State Trading Corporation should have disappeared, as it were, without leaving a trace behind. Since Government departments are certainly expected to take all necessary steps to ensure the safe and careful preservation of important papers/documents relating to policies of Government, and since the manner in which this particular scheme was conceived and implemented has also given rise to serious misgivings in the mind of the Committee, they must insist upon an investigation into the circumstances in which these papers had been misplaced/lost, with a view to fixing responsibility for lapses, if any are found. Effective remedial measures should also be taken by the Department to obviate the recurrence of such losses of important papers/files.

Min. of Commerce
Min. of Finance

The Committee regret to have to say that the Department's attempt to justify the exclusion of the Finance Ministry from undertaking a detailed scrutiny of the scheme of cash assistance for exports of man-made fabrics amounts to little more than a laboured extenuation and is, for the most part, a repetition of what had been stated earlier during evidence tendered before the Committee. The Committee in their 178th Report had pointed out that the mere fact that the Finance Secretary was also a member of the Committee of Secretaries which had approved the scheme did not obviate the need for a detailed scrutiny in the Finance Ministry and for the specific concurrence and approval of that Ministry after such scrutiny. Its association with the formulation and implementation of the scheme could perhaps have ensured that the assistance was not extended indiscriminately, as appears to have happened in the present case, but on a more precisely thought-out foundation. In the Committee's view, the Ministry should not have been precluded in this manner from exercising its legitimate functions of sanctioning, after careful scrutiny, expenditure proposed to be incurred on an individual scheme of such large magnitude as the one under examination. The Committee are constrained to have to reiterate their earlier view that the real reasons for making a deviation from the generally accepted procedures and practices in the case of man-made fabrics, remain unexplained. The peculiar procedure adopted in this case cannot be countenanced and the Committee would like to know if, as a special case, the Finance Secretary himself had not considered it necessary to have the scheme examined in detail by his Ministry.

1	2	3	4
---	---	---	---

4 1.16 Min. of Commerce

This is one more instance of inadequate response to a pointed observation of the Committee. After a lapse of nearly six months, the Committee receive a mere intimation that their observations, made after careful study of the facts placed before them, in regard to the passive acquiescence, for four years, of the State Trading Corporation in a scheme that was, *prima facie*, ill-conceived and unjustified, were 'being communicated to the Corporation'. In view of the fact that the formulation and implementation of the scheme for granting cash assistance for exports of man-made fabrics had given rise to doubts and even suspicion of *malafide* intentions, which needed to be allayed, the Committee had wanted a more positive and purposeful reaction from the Ministry as well as the State Trading Corporation. The Committee are unhappy over the entire position and ask for a further report in this regard. If the Committee's responsibility to Parliament and the country is to be adequately discharged, Government's response to their recommendations|observations should be explicit and helpful.

88

5 •1.19 -do-

The Committee have gone into the elaborate reply furnished by the Department of Textiles to their observations in regard to the inability of Government in effectively tackling an industry which clearly was resorting to evasive tactics and in spite of it continued to benefit from an indiscriminate and unwarranted assistance. The Committee feel that whatever steps were taken by the Department

had a strong and undeserved bias in favour of a recalcitrant industry and were unrealistic. Admittedly, the industry represented by the Silk & Rayon Textiles Export Promotion Council, had 'consistently' evaded, 'under one pretext or the other', the requests of the State Trading Corporation to furnish relevant cost data in support of its claims of losses incurred in the exports of man-made fabrics. The said Corporation had also periodically expressed itself against the cash assistance scheme. The difficulties involved in the implementation of the scheme, in the absence of all relevant data, had also been brought to Government's notice even prior to August 1971. It has, however, been contended by the Department of Textiles that the State Trading Corporation while representing, in July 1971, against the continuance of the assistance on a substantial scale, had *not completely objected to the continuance of the scheme as such*. While this may perhaps be true to an extent, the Corporation nevertheless appears to have been clear in its mind, in July 1971 at least if not earlier, that the assistance was not justified on economic grounds. It had also gone on record, in unequivocal terms, in March 1972, in protest against the decision of the then Secretary, Foreign Trade, to extend peremptorily the assistance at the then existing rates upto March, 1973, and to observe that even the reduced assistance of 25 per cent (introduced with effect from August 1971) was 'more than can be justified'. Besides it is evident that the Corporation had had considerable reservations even in regard to the initial quantum of assistance, sanctioned from March 1967 to July 1971, at rates varying between 10 and 33 per cent of the f.o.b. realisations which, according to them, was based more on negotiation than on

proven financial data, and that the decision to continue the assistance at reduced rates with effect from 1 August 1971 had been taken more on considerations of expediency than on any canons of financial prudence. In these circumstances, the argument that the State Trading Corporation 'did not completely object' to the scheme's continuance appears a formalistic stand which does not also have the saving grace of a contribution, in practical terms, to the long term growth of our trade.

The Committee are not unwilling to concede that there was justification perhaps for the Department's anxiety to impart a kind of continuity and stability to the exports of man-made fabrics. It is, however, seen that even according to the Department's own thinking, the cash assistance scheme was to be continued only after the quantum of assistance had been suitably fixed on the basis of relevant cost data. It was well-known by then that the rates already sanctioned were not only unrealistic but also excessive. A fresh look at the entire question had also been necessitated by the increased import entitlements announced in Government's Registered Exporters Policy for 1971-72. Yet, strangely enough, in disregard of all these facts, a decision was taken by the then Secretary, Foreign Trade, in a meeting with the Export Promotion Council at Bombay, for the continuance of the assistance at the existing rates for one more year upto March 1973. The reason for this extraordinary way

of deciding matters has not been explained to Committee's satisfaction. The Committee disapprove of the manner in which this issue has been handled and reiterate their earlier finding that Government had not exercised, in this case, the care and prudence normally expected of them.

1.21

-do-

It has been contended by the Department that the Working Group, appointed to examine the cost data and representative export qualities to be made available by the Silk & Rayon Textiles Export Promotion Council, had also subsequently confirmed that the cash assistance allowed during 1972-73 was reasonable. However, as pointed out in paragraph 1.120 of the 178th Report, the exercise carried out by the Working Group was only a haphazard attempt and also perfunctory, since it was not based on representative and entirely reliable data. This finding has not been disputed by the Department. The Committee are, therefore, unable to accept the Department's contention in this regard and are of the view that the extension of the cash assistance scheme during 1972-73 was unjustified and even indiscriminate.

41

1.22

-do-

As regards the peremptory extension of the scheme for the year 1972-73 by the Secretary, Foreign Trade, without even obtaining the Minister's approval, the Committee have been informed that, procedurally, the approval of the Minister is not required for granting cash assistance or for its continuance or for any modification of the existing rates of assistance. However, in view of the fact that the State Trading Corporation appeared to have genuine misappre-

hensions and reservations in regard to the scheme and also since the decision appeared to have been taken on somewhat tenuous grounds, the Committee feel that all the facts of the case ought to have been placed clearly before the Minister who could then have an opportunity to give his considered views on the entire question. Besides, since the assistance paid during each of the preceding two years had also exceeded a crore of rupees, the Committee are of the opinion that procedures and conventional practices apart, prudence as well as propriety demanded that such large expenditure was incurred only with the Minister's specific approval. Even procedurally, the Committee had been earlier informed by the Finance Secretary himself during their examination of paragraph 14(ii) of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil). Revenue Receipts, Volume I, Indirect Taxes that where the expenditure involved or the expenditure proposal is over Rs. 1 crore, then it is normally submitted to the Minister. In the circumstances, the Committee find it difficult to reconcile themselves to the Department's present reply. In any case, they would urge that the feasibility of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval, should be appropriately examined.

