

**REPORT
OF
THE STUDY TEAM
ON
THE WORKING OF
EXCHANGE CONTROL DEPARTMENT**

**RESERVE BANK OF INDIA
BOMBAY**

30th SEPTEMBER 1975

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CHAPTER I

INTRODUCTION

1.1 The working of the Exchange Control Department, particularly at its Central Office and the Regional Office in Bombay, has recently been subjected to severe

Formation of Study Team

constraints on
account of new and
diverse elements

of work, shortage of space and staff, unsatisfactory record-keeping, paucity of trained personnel, mounting arrears, lack of adequate supervision and several other deficiencies. Since the officials at the decision-making levels are pre-occupied heavily, it has not been possible for them to devote due attention to the long-term developmental needs. A decision was, therefore, taken in January 1975, with the approval of Governor, to set up a Study Team with a view to undertaking a broad study of the working of the Department at Bombay and suggesting possible improvements. It was also decided that Officers having adequate experience in Exchange Control work would undertake the study in association with the Director, Organisation and Methods Division. Accordingly, the Study Team

was constituted with the following Officers of the Bank:

- | | |
|----------------------------|--|
| (1) Shri A.V.Deshmane | - Director,
Organisation &
Methods Division. |
| (2) Shri H.P.Nag Chowdhury | - Deputy Manager,
Department of
Administration &
Personnel. |
| (3) Shri V.Subrahmanyam | - Assistant Controller,
Exchange Control
Department. |

1.2 The terms of reference of the Study Team were as follows :

- | | |
|-------------------------------|--|
| <u>Terms of
Reference</u> | <p>(1) Study the existing procedures (in broad terms) with reference to the priorities and suggest modifications, where necessary.</p> <p>(2) Assess the areas of deficiencies (particularly in regard to follow-up action and delay in disposal of cases) and consider the ways for improvement.</p> <p>(3) Study the existing pattern of delegation of powers to various Officers in the Department.</p> <p>(4) Examine whether further powers can be delegated to authorised dealers, airline/ shipping companies, etc.</p> <p>(5) Examine the utility of various returns and statements received from authorised dealers and Regional Offices of the Bank and suggest rationalisation.</p> |
|-------------------------------|--|

- (6) Recommend a suitable Information System - kind, quality and timeliness of data to answer Parliament Questions and to assist policy-making.
- (7) Consider improvements in regard to maintenance/destruction of records.
- (8) Rationalise the system of extending customer service over the counter.
- (9) Consider the organisational set-up of the Department, particularly delinking of Bombay Office from Central Office.
- (10) Examine the question of staffing of the Department.
- (11) Consider the problem of location and lay-out of various Sections.
- (12) Assess the training needs in the Department at various levels.

1.3 Soon after the formation of the Study Team in March 1975, the members held discussions with the

<u>Initial Developments</u>	Senior
<u>after formation of</u>	Executives
<u>the Team</u>	of the

Department and thereafter with the Deputy Governor, Shri S.S. Shiralkar, regarding the guidelines to be followed in connection with the study. Two members (Sarvashri Nag Chowdhury and Subrahmanyam) were, however, drafted by the Department for about a month for some urgent items of current work. In the meanwhile, the third member (Shri Deshmanc) unfortunately

fell ill and proceeded on long leave. Immediately on relief from the Departmental work, the other two members resumed the study. Though these members had a discussion with Shri Deshmane on his return from leave, he could not actively associate himself with the Team for some more time due to other pre-occupations. In effect, Sarvashri Nag Chowdhury and Subrahmanyam who had already commenced the work continued to function exclusively with a view to completing the study within the allotted time.

1.4 In order to elicit the requisite information, the Study Team adopted mainly two methods - discussions

Methodology

and issue of
questionnaires.

Letters conveying the terms of reference of the Study Team were sent individually to the Deputy and Assistant Controllers in advance and the members of the Team held detailed discussions with them subsequently in regard to the various procedural and organisational problems. In addition, the members of the Team made an on-the-spot study of the work performed by the other Officer-staff (162) and Non-officer staff (400 approximately), spread over 50 Sections in the Bombay Regional Office

and Central Office for the purpose of assessment of their working conditions, procedures actually followed by them, their accountability and the supervision exercised by them (relating to the Officer-staff only). Apart from these discussions, two different questionnaires were issued to the Exchange Control Officers/Staff Officers and the clerical staff individually. The Study Team summarised the information collected through the questionnaires and discussions, analysed the same, studied the relative background papers and the connected data and then formulated its views.

1.5 In view of the limited time and staff-strength, it has not been possible for the Study Team to make

Limitations
of the Study

suggestions
on all
matters

concerning the Exchange Control Department. It has confined its study only to some specific areas within the existing framework. Even in an area like Returns and Statements, the Team has been able to make a partial study. As indicated in the preamble, the Study Team has gone into the objective details of

the Bombay Regional Office and Central Office only, though some policies and procedures of all-India bearing have been examined in the process. Owing to non-availability of data on several aspects of the work handled in the Department, it has not been possible for the Study Team to apply strictly quantitative and statistical techniques while assessing the work-load in the Sections and the staff requirements. The Team has, no doubt, gone into the statistics, wherever available, and has also closely examined the actual working of the staff in the various Sections. Since the operations in the Exchange Control Department are of a specialised and technical nature, the Study Team has felt that a mere quantitative approach would not be adequate and has accordingly given more emphasis on the qualitative aspects of the work.

1.6 The Report of the Team is divided into fourteen chapters. The sequence of the chapters does not, how-

ever, follow

Chapter Design

the same order

as that of the terms of reference. But the chapters have been so designed that they contain the requisite

background information and also the recommendations of the Study Team on the various aspects included in the terms of reference. Briefly, the coverage of the various chapters is indicated below :

- (1) Chapter II on 'Exchange Control Department - A review' traces the major developments in the field of Exchange Control since late fifties when the foreign exchange crisis deepened to an alarming extent and the reserves reached almost the rock-bottom and their reflections on the organisation.
- (2) Chapter III deals with the evolution of 'P' Form procedure, its working, dilution in the shape of Foreign Travel Scheme, subsequent administrative and legislative measures to prevent leakage of exchange and ultimately, makes a recommendation for abolition of this procedure.
- (3) In Chapter IV, the present maladies in regard to the GR Form procedure relating to exports have been discussed and suggestions made for introduction of modified working system in order to overcome the existing deficiencies.
- (4) Chapter V contains a review of procedures in a few other selected areas like permit-issue system, scrutiny of statements relating to passage/freight collections, licensing of airline/shipping companies and travel agents, issue of guarantees, etc. and Chapter VI examines the question of delegation of powers internally to the various hierarchical levels in the Department itself and externally, to authorised dealers and airline/shipping companies and travel agents.

- (5) Chapters VII and VIII have been devoted to the study of the returns and statements in order to rationalise some aspects of the statistical work and also to evolve a Management Information System in the Exchange Control Department.
- (6) In three subsequent chapters (Chapter IX - XI), the problems regarding customer service, record-keeping and training needs of the personnel at various levels have been discussed.
- (7) Chapter XII has dwelt on the organisational problems like delinking of the Bombay Regional Office from Central Office, realignment of the operating Sections on a scientific basis, introduction of the scheme of unified control for effective supervision, staffing of the Department and the possible lay-out of the various Sections.
- (8) In order to administer the new provisions of the Foreign Exchange Regulation Act, 1973, for regulating the activities of foreign-controlled companies/firms in India and also the investments in India by foreign nationals and all non-residents, a special Section has been created in Central Office - the working of this Section has been reviewed in Chapter XIII on 'Administration of FERA in relation to Foreign Companies'.
- (9) Chapter XIV on 'Perspective' indicates briefly the future pattern of the Control and also the measures which may be adopted administratively to keep the work-flow in the right direction.

Since the major recommendations have been summarised at the end of each chapter, no separate chapter has been introduced for this purpose.

1.7 The members of the Study Team express their gratitude for the confidence shown in them by the higher

Acknowledgements

authorities of
the Bank in

entrusting this assignment to them. They are particularly indebted to the Deputy Governor, Shri S.S. Shiralkar, who has kindly taken personal interest in the work of the Team and given guidance from time to time despite his heavy responsibilities.

1.8 The members are also grateful to the Senior Executives and other colleagues of the Department for their valuable advice on various issues and for sustained support.

1.9 Lastly, the Study Team places on record its appreciation of the commendable work done by Sarvashri T.T. Fernandes, C.L. Viswanathan, P.P. Subramanian, Jose Mathew and V.N. Vasudevan in extending secretarial assistance by way of collection and analysis of data, preparation of background notes and finalisation of the Report.

CHAPTER IIEXCHANGE CONTROL DEPARTMENT —
A REVIEW

2.1 With the centralisation of almost the entire foreign exchange reserves of the country with the Reserve Bank, the Introduction statutory responsibility for administration of Exchange Control has necessarily vested in the Bank. Although the broad policies and guidelines are laid down by the Central Government in consultation with the Bank, the actual allotment of foreign exchange for 'invisibles' is made by the Bank according to the scheme of priorities. The Control is also required to exercise supervision over trade transactions for regulating the inflow and outflow of exchange. In fact, any scheme that carries a tinge of foreign exchange calls for an involvement of the Reserve Bank. The basic policy in this regard is naturally conditioned by the flow of exchange reserves. When the reserves tend to increase, the policy may be liberalised and when they tend to decrease, it has to be made stringent.

2.2 During the course of the Second Five-Year Plan, the exchange reserves came down to an alarmingly

low level due to heavy drawings on account of develop-

Major Developments
since late fifties

mental efforts. The
Reserve Bank of India
Act had to be amended

twice during 1956-57 in quick succession in order to bring down the statutory limit of the foreign assets of the Issue Department and the Exchange Control had also to introduce drastic measures to reduce the outgo of foreign exchange. The Basic Travel Quota of £.750/-, which could freely be availed of once in two years, was withdrawn with effect from January 1957. This measure was soon followed by curtailment of the emigration quota and imposition of various restrictions regarding release of exchange for travel purposes. The import policy was also hardened by Government at the same time.

2.3 Despite these rigid steps, the corner could not be turned. It was gradually realised that

'P' Form restrictions

people going out
of India without

any formal allotment of exchange were intercepting the inward flow of funds through the mechanism of compensatory transactions for meeting their exchange

needs. In order to curb this undesirable practice, a decision was taken to exercise control even on those persons who would like to go out of the country on 'no exchange' basis. Accordingly, the 'P' Form restrictions were introduced in a comprehensive way in June 1962. Since this procedure affects a wide section of the community, it has been kept under constant review and relaxations have been made from time to time to enlarge the categories of approved hosts and to modify the procedures relating to documentation, stop-overs, etc. Continuing this trend towards relaxation, the Foreign Travel Scheme was introduced in 1970 permitting residents of India to undertake one foreign trip of their choice during every three years, without compliance with the 'P' Form formalities. The powers delegated initially to airline/shipping companies and travel agents for operation of this Scheme were, however, withdrawn after a couple of years due to certain malpractices reported to have been committed by some foreign airlines. Consequent on the revocation of these

powers, the responsibility for approving all applications under the Scheme fell directly on the Exchange Control Department. As an offshoot of the 'P' Form restrictions, the procedure for licensing of airline/shipping companies and travel agents for booking of foreign passages has been evolved. The remittances of surplus passage/freight collections by or on behalf of foreign carriers have also been subjected to the prior approval of the Reserve Bank.

2.4 Soon after the introduction of the 'P' Form, special attention was given to the export

Export Sector

sector in order to
ensure promotion

of exports and timely realisation of export proceeds. The method of compilation of export data was rationalised by modifying the system of coding a large mass of information from the original, duplicate and triplicate copies of all GR etc. Forms. The follow-up procedure was also streamlined by prescribing new returns for authorised dealers, introducing a mechanised system (subsequently discontinued) of issuing reminders to authorised

dealers/defaulting exporters, changing the method of verification of export forms with reference to the computerised control sheets and by a few other measures. The procedure for the grant of exchange facilities to exporters was relaxed gradually. The exporters are now granted liberal exchange facilities for undertaking visits on export promotion grounds. The exchange quota has been raised on successive occasions due to increasing cost of living in foreign countries. The Blanket Permit Scheme for releasing lump sum exchange to large exporters for meeting expenses on account of travel, participation in trade fairs, advertisements, market studies and for securing trade samples/technical information was introduced and the relative procedure has been progressively simplified. In addition, new regulations have been framed to permit exports on deferred payment basis and to extend long-term forward cover facilities for such exports.

2.5 Various steps have also been taken to supplement earnings through export of technical know-how and other invisibles. Facilities are

provided to large industrial houses to undertake turnkey projects in developing foreign countries.

Liberal policies have been evolved in order to

Overseas Enterprises

encourage the setting up of joint ventures

and undertaking consultancy/construction/design engineering/management service contracts abroad.

The Indian shipping is also expanding in a big way.

In all these cases, exchange and export facilities are afforded in the initial stages and close liaison is kept with the concerned companies/firms to see whether their efforts are being fructified.

Subsequently, the Control is required to ensure that the exchange earnings of these overseas enterprises are repatriated to India promptly and regularly.

2.6 In order to attract funds from non-resident sources, many new measures have simultaneously been

Facilities for
Non-Residents

introduced in the recent years. Persons of Indian nationality or

origin resident abroad are allowed to open Non-resident (External) Accounts to which funds remitted from abroad through banking channels may be credited

and from which the balances (including tax-free interest accruing on these balances) repatriated freely, without the prior approval of the Reserve Bank. A decision has also been taken to permit opening of such accounts in leading foreign currencies so that the account-holders are not obliged to carry unnecessary exchange risks. Although closer control is exercised on the foreign currency assets of persons who have come back to India from foreign countries on a long-term or permanent basis, relaxations have been made in respect of those account-holders who would set up industries in India or who have not taken any final decision regarding their settlement in India. A new class of accounts has come up for the purpose of securing external funds by allotment of tractors, cement, private vehicles, etc. on a priority basis. Even otherwise, liberalisations have been made in regard to the operations on other non-resident accounts held by Indians resident abroad. Facilities are also provided to such persons for investments in all fields covering trading, manufacturing or industrial activities.

2.7 Along with these broad relaxations, special steps have been taken to tighten the Control in certain spheres. On the lines of the recommendations

Other Developments made by the Kaul
Committee for

prevention of leakage of exchange through invoice manipulation, new provisions have been made to streamline the checking systems in respect of trade transactions. The eligibility standards for release of exchange for higher studies have been made more stringent by prescribing that students should have secured admission directly to a post-graduate degree or diploma course (and not a first-degree course) in a foreign university and have obtained at least 60 per cent marks in the relevant qualifying degree or diploma examination in India. Fresh guidelines have been evolved in regard to remittances of profits by Indian branches of foreign companies and dividends by foreign-controlled Indian companies, acceptance of rupee deposits by foreign-controlled companies, remittances by foreign oil companies, termination of indefinite collaboration agreements, linking of royalty remittances with authorised production/

landed cost of the imported components, etc. In addition, floatation of Pound Sterling along with other major European currencies due to uncertainties in the international exchange markets and introduction of spot/forward purchase facilities by the Reserve Bank in respect of some leading currencies other than Pound Sterling, emergence of Bangladesh and the virtual dismantling of the Sterling Area have also led to many fundamental changes in the policies and procedures. Rupee has since been delinked from Pound Sterling and linked with a basket of leading currencies.

2.8 Consequent on the passing of the Foreign Exchange Regulation Act, 1973, a number of new

	administrative and
<u>New FERA</u>	regulatory functions

have now devolved on the Department in order to secure better control on the activities of Indian branches of foreign companies, foreign-controlled Indian companies, foreign nationals in India and all non-residents from the angle of Exchange Control. This apart, some of the existing regulations have also been made more intensive or broad-based through the new Act.

2.9 With these rapid changes in the outlook and operations of Exchange Control on account of various

Bombay ECD — its
responsibilities
and set-up

national and
international
developments, there

have been tell-tale marks on the organisational set-up and functions of the Exchange Control Department, particularly on its largest Regional Office in Bombay and on Central Office. Like any other branch, the Bombay Office is normally supposed to deal with all applications received from persons/companies residing or functioning in the State of Maharashtra and the Union Territories of Dadra and Nagar Haveli and Goa, Daman and Diu within the authorities delegated by Central Office. In reality, this Office attends to all Central Office functions also in regard to these cases. As Bombay is virtually the financial capital of the country, this Regional Office has necessarily to carry a heavy work-load as is evident from the trend of the following major data :

I Number of Exporters, Authorised Dealers, etc.

	<u>Category</u>	<u>Number</u>	<u>As on</u>
(1)	Exporters	14,636 (53,987)	30- 6-1975
(2)(i)	Principal Offices of Authorised Dealers	21 (54)	1- 9-1975
	(ii) Branches of Authorised Dealers -		
	(a) Maintaining independent position.	34 (134)	31-12-1974
	(b) Operating on position maintained by their other Offices	414 (3,308)	31-12-1974
(3)	Airline companies	18 (35)	1- 9-1975
(4)	Steamer companies/ Agents	13 (23)	1- 9-1975
(5)	Travel Agents	38 (93)	1- 9-1975
(6)	Money changers	111 (494)	1- 9-1975

II Number of applications/forms handled :

		1972	1973	1974	1975 (upto 30th June)
(1)	P Forms	27,221 (59,703)	32,483 (67,507)	38,937 (79,142)	25,378 (47,043)
(2)	FTS Applications	20,903 (49,794)	19,848 (43,679)	21,255 (50,299)	*
(3)	Exchange permits issued :				
	(i) for Business travel	5,519 (11,181)	6,068 (15,129)	6,186 (13,833)	3,109 (7,604)
	(ii) for Higher studies/ training	544 (2,779)	637 (2,895)	708 (3,253)	173 (885)
	(iii) for Misc. purposes	956 (9,312)	905 (9,917)	895 (8,219)	467 (4,852)
(4)	Export Forms:				
	(i) GR Forms	4,45,299 (11,66,104)	-	5,45,454 (11,76,765)	*
	(ii) Others	55,170 (1,95,600)	-	61,866 (2,08,321)	*

(* Figures not available)

III Export proceeds realised

<u>Year</u>	<u>Amount</u> (Rs. Crores)
1971-72	615.81 (1564.08)
1972-73	792.61 (1844.94)
1973-74	1136.87 (2405.96)

- NOTES: (1) The figures in brackets represent all-India data.
- (2) Owing to non-availability of data, the particulars relating to certain major areas (e.g. Blanket Permits, Remittances of surplus freight/passage collections, Foreign collaborations, Joint ventures, Non-resident Accounts, Deferred Payment Export Contracts, etc.) have not been furnished. It has also not been possible to collect data, wherever available, for any uniform period.

2.10 The problems cropping up in this Office give a fair projection of the entire range of Exchange Control operations. Central Office has generally been treating this unit as a barometer to assess the impact of new regulations and also utilising its records for the purpose of review of the various policies. The line of demarcation between Central

Office and the Bombay Regional Office has thus become very thin. The Deputy Controllers in Central Office are attending to specified subjects from the all-India angle and simultaneously, holding direct charge of the same items handled in the Bombay Office. The Bombay Office puts up cases to Central Office through three Assistant Controllers by merely marking the papers to the concerned Deputy Controllers, oftentimes without clearly spelling out the issues on which instructions are sought or specifying the relevant provisions of the Book of Instructions or Central Office circulars. As references to Government are made by the Bombay Office direct, important decisions of all-India implications are not always communicated to other Offices. Over years, some differences have come up between this Office and other Regional Offices regarding the treatment of cases in certain areas. As different Senior Officers look towards the Bombay Office through their respective window, there is hardly any co-ordination between the various operating Sections. A tendency has developed to pass on the work from one Section to another. In many areas, the work has been distributed

in a haphazard manner without grouping the connected items together. There are many instances where the clerical staff and officers report to different higher-ups at the same time. Due to this confused state, the line of control has become diffused and it is often difficult to assess who is doing what or who is doing how much. When the problems were limited or the cases were few, the effects of these organisational weaknesses were not perhaps so pronounced. But in the context of recent complexities and volume, the exercise of administrative control through different channels has made this Office a heterogeneous unit.

2.11 The Central Exchange Control Department is primarily engaged in formulating policies for the

Central Office -
responsibilities
and set-up

administration of
Exchange Control
and framing the

guidelines for authorised dealers, airline/shipping companies, travel agents, money-changers and also for the Regional Offices. All references received from the branches (other than Bombay) are dealt with by Central Office either independently or in

• consultation with Government, as may be appropriate. The Central Unit also handles directly the work relating to foreign currency accounts, shares/ securities and immovable properties held abroad by resident Indians and deals with the applications for release of exchange for attending international conferences. The Central Office of the Department is headed by the Controller, who is assisted by an Additional Controller, a Joint Controller and eight (including two recently sanctioned ad hoc posts) Deputy Controllers. As the Deputy Controllers are also required to look after the day-to-day administration of the Bombay Regional Office, they remain mostly busy in interviewing parties in connection with local cases and attending to other routine items. These Officers cannot, therefore, give sufficient attention to the policy aspects of the work. As in Bombay Office, there is also no functional affinity in respect of the groupings of Sections placed under the administrative control of the various Deputy Controllers. Though these Sections are generally officer-oriented, quite a few Staff Officers and Exchange Control Officers report

to more than one senior. The existing set-up of Central Office and the Bombay Regional Office has been indicated in a chart annexed to this chapter.

2.12 The Exchange Control establishment in Bombay is spread over three buildings. The Sections of the

Location of the
Department in
three buildings

Local Office are
housed on the first
floor of Amar

Building, Fort and sixth floor of Mercantile Bank Building, Flora Fountain. The Central Office Sections are situated on the first, fifth and sixth floors of Amar Building, sixth floor of Mercantile Bank Building and fifth floor of Eros Building, Churchgate. As the Senior Officers are seated in Amar Building, papers travel 2/3 times daily, and sometimes more frequently, between the Mercantile Bank Building/Eros Building and Amar Building. Apart from lack of contiguity, there are other anomalies too. Two Sections (e.g. PR and PRT) of the Regional Office are working in Amar Building, but the concerned Exchange Control Officer is seated in the Mercantile Bank Building. The Exports Section is situated in the

Mercantile Bank Building, but the concerned Assistant Controller is working in Amar Building. Some Sections of Central Office are working in the first and sixth floors of Amar Building, but the Deputy Controllers holding direct charge of these Sections are seated on the fifth floor of the same building and vice-versa. Even on the respective floors, the operating Sections have been squeezed at random. The tables are huddled together and there is no proper moving space. In view of these confusions, it is well-nigh impossible for the Senior Officers to exercise any direct supervision over the working of the junior staff who are scattered on different floors or in altogether different buildings. There is also obviously less scope for percolation of ideas from the senior to the junior level or any direct feedback. These arrangements have created yet other problems. All outward letters, which are issued by the Sections situated in Eros Building and Mercantile Bank Building and are required to be despatched by post, are sent to the Establishment Section in Amar Building for the purpose of affixation of postage stamps. The upward and downward movements of case

papers and letters either for securing decisions or for despatch ultimately lead to delay and public complaints. Often, the applicants or travel agents chase their applications from one building to another. The visitors to the Department are also inconvenienced. Small space has been provided for the Enquiry Sections in Amar Building and Mercantile Bank Building and the public are cramped in. They become impatient to get through the Enquiries and gradually overflow to the Travel, Passage and other Sections, which are located just behind the Enquiry Section, to find the fate of their applications. All these have happened over years due to acute shortage of space and to a certain extent, unmethodical allotment of the available space.

2.13 Though the volume of work has steadily increased, it has not been possible to increase

<u>Inadequacies in</u>	the staff-strength
<u>staff arrangements</u>	correspondingly in
	all the Sections.

Particularly, there is a shortage in Exports,
OPL (Office-Opening/Joint Ventures/Engineering/

Consultancy, etc. contracts, Profit and Dividend Remittances and Loans and Overdrafts), Statistics, Passage(ii) [attending to applications for remittance of surplus passage fare/freight collections by foreign airlines/shipping companies] and TSP(Transport) Sections in the Bombay Office. In all these Sections, the work has undergone major qualitative changes in the recent years and the volume has also increased. The changes in the overall staff-strength of the Bombay Regional Office and Central Office in the recent years have been broadly as under :

Sanctioned strength of staff of Exchange Control Department, Bombay (including Leave/Trainee Reserves)

Categories	Years			
	1970	1972	1974	1975
1. Senior Officer	7	7	9	9 (1)
2. Asst.Controller/ Adm.Officer	6	6	6	7 (2)
3. Exchange Control Officer	20	20	24	27 (9)
4. Staff Officer Gr.II	97	100	116	123(23)
5. Clerk Gr.I & II	314	319	344	362(51)
6. P.A., Steno..Gr.I & II, Typist & Comptist	50	52	60	64(13)
7. Class IV Staff	101	101	114	125(16)
Total	595	605	673	717(115)

NOTE : Figures in brackets indicate the combined staff-strength of Foreign Companies and Foreign Accounts Sections.

The Department is also facing another problem from the staff-angle. Due to the introduction of inter-departmental mobility, many untrained staff are now coming to this Department from other Departments. They find difficulties to settle down properly in the Department for lack of adequate training opportunities. In effect, almost all Exchange Control Officers and some Staff Officers have been particularly over-burdened. As they have to attend to the stream of visitors and handle quite a few items of work themselves, they do not oftentimes get any time to exercise adequate supervision over the Section/s.

2.14 Although some of the Sections like Students, Travel, Passage and FTS gear themselves for attending to the cases speedily in order to

Pendencies avoid frequent
interviews,

telephonic enquiries or complaints, delay occurs generally in almost all the Sections. The position is extremely unsatisfactory in Exports, Statistics, Transport and Non-resident Sections and also in the Sections dealing with remittances of surplus

passage/freight collections, profits/dividends and loans/overdrafts. Until a couple of years back, overtime work was rather uncommon in this Department, excepting for the coding of the export data and the exchange transactions reported by authorised dealers. But the position has undergone a drastic change since then and during the recent months, overtime work had to be resorted to on a wide scale in order to keep the work-flow under control. The expenditure incurred by the Department during 1974-75 on account of payment of overtime allowance to the staff in the various Sections is indicated below :

<u>Section</u>	<u>Amount</u> Rs.
(1) Exports Section	3,19,000
(2) Travel/Students/P Form/ FTS Sections	59,000
(3) Statistics Sections	58,000
(4) Foreign Companies Section	30,000
(5) Overseas Offices, Profits/ Dividends, Loans/Overdrafts Section (OPL)	22,000
(6) Passage/Freight Remittances Section	14,000
(7) Non-Resident Accounts Section	14,000
(8) Foreign Accounts Section	13,000
(9) Other Sections	1,57,000
Total	<u>6,86,000</u> =====

Even with the overtime work, the position regarding disposal of cases is not very satisfactory in all Sections. Quite frequently, complaints are received by letters or over the phone for delay. A sizable number of visitors come to the Department daily just to contact the dealing staff and to get their cases expedited.

2.15 It has been observed that the delay is also a direct effect of excessive centralisation of

Centralisation
of Powers

powers for
approval of
cases or for

the issue of exchange permits. On the basis of the recommendations made by the Special Inspection Team in 1968, powers were delegated to a considerable extent to the various hierarchical levels within the Department and also to authorised dealers. Since some instances of abuse of powers came to light in 1974, the scheme of delegation within the Bank was modified to a very great extent. Despite certain advantages of the modified procedure, it has created some administrative bottlenecks.

2.16 Though attempts are made to keep the current work under control, serious deficiencies have come up

Follow-up Work in regard to the follow-up work. In

the Exports Section where primary importance should be given to the GR Form drill in order to secure timely realisation of export proceeds, the position has gone into a very bad state of affairs. The follow-up work which should have been completed in 1972-73 is being done now. Similarly, in the OPL Section where applications for the setting up of joint ventures, acceptance of consultancy/construction/design engineering contracts and opening of offices abroad on export promotion grounds are approved, hardly any follow-up action is taken to ensure that dividends/profits earned abroad are repatriated to India regularly. Indian shipping has made great strides in the recent years and large amounts of foreign exchange are released to the concerned companies for purchase of ships and for meeting current expenses like bunkering, dry-docking, etc. charges. Attention is diverted more towards approval of such remittance applications than towards scrutiny of the statements received from the

shipping companies, showing their collections and disbursements in foreign exchange. Apart from these major areas, due attention is not given to other cases also. In certain categories of travel applications (e.g., medical treatment, employment, emigration, participation in trade fair, etc.) exchange is released subject to accounting or on repatriation basis. Sometimes, 'P' Form clearance is granted conditionally. Advance remittances in regard to imports are allowed subject to production of documentary evidence regarding actual import. Even in these cases, the position regarding the follow-up action is no better. No serious attempt is made to secure the prescribed returns or statements from authorised agencies or to consolidate them according to the scheduled dates. In brief, the follow-up action is given the least importance in the Department, even though it is so vital for any scheme of Control.

2.17 Similarly, scanty regard is shown to the record-keeping in the Department. Oftentimes, cases get delayed due to non-availability of the relative

files or papers. Case papers are kept in loose condition

Bad shape of Records

for months and are
even dumped on the

floor or beneath the tables. No action is virtually
taken to index the important decisions or to bring
an orderliness in the system of maintenance of records.

2.18 There is practically no information

system in the Department. Inward letters are not

always diarised.

Lack of Information
System

The details of
outstanding cases

are not reported to the Officers-in-Charge of the
various Sections. The work is often allowed to
drift and work-assessment is normally done only
when arrears assume a chronic form. Though
various data are received and summarised in the
Department, they are not recorded systematically or
put up to the Senior Officers. Importance on
collection of data is given only when some queries
are received from Government Departments or replies
to the Parliamentary Questions are required to be
drafted.

2.19 Central Office is often required, because

of its policy-making and controlling position, to attend to various important ad hoc items of work

Impact of
Special
Assignments

like enquiries by
the Public Accounts
Committee, special

investigations by the Central Bureau of Investigation, Foreign Exchange Enforcement Directorate, Monopolies & Restrictive Trade Practices Commission, etc. and many special studies. These jobs are usually very intricate and onerous. Oftentimes the current work gets dislocated on account of diversion of staff to these special assignments. The impact of such dislocation in Central Office directly percolates down to the level of the Bombay Office due to the absence of any clear-cut demarcation between these two units.

2.20 One of the basic responsibilities of Central Office is to revise the Exchange Control

Revision of Exchange
Control Manual and
Book of Instructions

Manual and the
Book of Instructions
periodically and

also to issue comprehensive amendment slips in respect of these primary publications at regular

intervals in order to keep the operational instructions up-to-date. The last editions of these publications were issued in early 1971 and since then, many new instructions have been issued, as is evident from the following flow of circulars :

<u>Year</u>	<u>Nature of Circulars</u>				
	<u>EC/AD</u>	<u>CO</u>	<u>BY</u>	<u>SPA</u>	<u>AM</u>
1971	33	43	31	4	4
1972	72	68	22	11	4
1973	82	67	31	3	15
1974	111	71	44	7	13
1975 (upto 31st August)	71	47	32	6	11

Total	369	296	160	31	47
=====					

The stock of the current edition of the Manual has been fully exhausted. The Department is not in a position to supply even a single copy to authorised dealers for their new branches or even to new Officers in the Bank itself. Most of the Officers in the Bombay Regional Office and Central Office do not have copies of the new Foreign Exchange Regulation Act. Non-availability of these publications containing fundamental regulations has become a

serious impediment for proper functioning of the Control.

2.21 In view of these deficiencies, it has become imperative to reorganise the Department and to simplify the working procedures in order to secure better output and achieve a higher level of efficiency.

CHAPTER III

'P' FORM

3.1 The Exchange Control Department carries a very heavy responsibility, particularly in Bombay,

Introduction in regard to the
administration of

'P' Form regulations. 'P' Form clearance is required by persons who desire to go abroad without obtaining any foreign exchange allotment from the Reserve Bank. The 'P' Form mechanism was introduced in its present form in June 1962 as a device to conserve the foreign exchange.

3.2 With the deepening of the foreign exchange crisis in late fifties, the Basic Travel Quota (introduced at a modest scale after the Second World War in the wake of comfortable exchange reserves and gradually raised to the limit of £.750/- once in two years) was withdrawn with effect from 1st January 1957 and a few other restrictive measures were also imposed. After withdrawal of the Basic Travel Quota, prior permission of the Exchange Control on 'P' Form was made a pre-requisite for travel to U.S.A. and the

Phillipines, while travel without exchange to other countries continued to be free from any restrictions. Persons going to U.S.A. and the Phillipines under the "Guest Scheme" on the basis of hospitality extended by friends and relatives were eligible to get a nominal exchange.

3.3 Despite the various corrective measures and an increase in exports coupled with a decline in imports, the Balance of Payments position continued to be unsatisfactory. A detailed examination of foreign exchange receipts and payments under the head 'invisibles' was, therefore, undertaken by the Reserve Bank in 1962. It was estimated that the leakage of foreign exchange through unauthorised channels on account of 'invisibles' was in the order of Rs.50 crores per year, of which Rs.10 to Rs.12 crores was contributed by travel alone. Nearly 60 per cent of the people had travelled without any release of foreign exchange and 50 per cent of those travellers met their requirements in an unauthorised manner out of foreign exchange which would have accrued to the country by way of remittances from non-resident Indians towards maintenance

and other expenses. This view was taken having regard to the sharp fall in inward remittances which showed a reduction of about Rs.35 crores under the sub-heads "money-order drawings" and "unclassified receipts" between 1956 and 1961. Another consequence of this unauthorised travel was that the country was not getting its full foreign exchange earnings from the tourist traffic. Though the number of tourists visiting India over the period 1956 to 1961 had gone up from 69,000 to 1,40,000, the actual foreign exchange receipts remained stagnant around Rs.4.5 crores. This indicated that a substantial portion of the foreign exchange income which should have accrued to the country on account of the tourist traffic was also being diverted to the free market. In view of these indicators —larger number of travellers from India without exchange allotment, less flow of inward remittances and stagnant income from foreign tourists despite an upsurge in their number —imposition of control on foreign travel was considered necessary. Accordingly, the Reserve Bank issued directions on 8th June 1962 to

all airline/shipping companies and travel agents that passages for travel abroad could be booked by them only if —

- (a) the traveller had been granted foreign exchange for travel abroad; or
- (b) the traveller had obtained specific approval of the Reserve Bank on 'P' Form; or
- (c) the traveller was in the category of persons covered by any general permission granted by the Reserve Bank.

Commensurate with these general restrictions, the Bank also suspended the facility of booking passages for travel to U.S.A. and the Phillipines under the "Guest Scheme".

3.4 It is the primary objective of 'P' Form procedure to ensure that the living and incidental

'P' Form Regulations

expenses of
persons travel-

ling from India for private purposes are met by their close relatives abroad (out of natural love and affection) and that such hosts are not compensated by the travellers in any way out of their rupee or foreign exchange resources. Accordingly, the 'approved' relatives whose sponsorship was to

be accepted for 'P' Form clearance were initially confined to parents, sons and daughters only. As this coverage of the acceptable hosts was too restricted, it was gradually widened to include the traveller's or his spouse's brothers, sisters, uncles, aunts, nephews, nieces and parents-in-law in order to mitigate hardship. In course of time, grand parents and grand children and traveller's sons' and daughters' parents-in-law were also brought within the ambit of approved hosts. In other words, all conceivable relatives except cousins are now acceptable for the purpose of 'P' Form clearance. Simultaneously, certain regulations exempting some categories of travellers from 'P' Form formalities were evolved to make the procedure less irksome. With a view to liberalising the provisions still further, the Foreign Travel Scheme was introduced in March 1970, in terms of which persons who have not gone abroad within a period of three years can undertake foreign travel without the requirement of 'P' Form. Under this Scheme, persons travelling by Indian airline/shipping companies are eligible to obtain foreign

exchange to the extent of U.S.\$100/-.

3.5 Although 'P' Form clearance is allowed only in cases where there is no direct or indirect

Inconsistencies/
Abuses

compensatory pay-
ment and the
travellers have

been offered bonafide hospitality, there are quite a few areas where these basic requirements are being overlooked due to administrative or other considerations. For examples -

- (1) Certain categories of travellers (e.g., those proceeding to Nepal or Bangla Desh) have been exempted from 'P' Form procedure altogether. Similarly, deck passengers travelling to Burma, Sri Lanka, Malaysia, Singapore, Pakistan, Persian Gulf Ports or East Africa are exempted from 'P' Form. Despite the presumption that these passengers will travel only up to the specific destination, they can conveniently go to any other destination of their choice from these places without the knowledge of the Reserve Bank and thereby circumvent 'P' Form regulations.
- (2) Air travel between Madras/Tiruchirapalli/Trivandrum and Colombo is exempted from the 'P' Form, but not travel between any other points in India and Sri Lanka.
- (3) "Cousins" are not included in the enlarged list of approved hosts apparently on the assumption that compensatory payments are involved in cases of such hospitality. Though their hospitality is not accepted even for short visits, students (including

those who do not satisfy the prescribed requirements for release of exchange for studies) are allowed to go abroad on the hospitality of their "Cousins" for higher studies, involving an estimated foreign exchange expenditure of U.S.\$12,000 or £3,600 (plus tuition fees) for a four-year course. Similarly, hospitality of friends is not acceptable for even casual visits, but it is approved when the hosting friends send remittances covering full passage fare (return) through normal banking channel. It is unrealistic to consider that any cousin or friend will lay out such huge funds, particularly in these days of severe economic hardships round the world, for the traveller without any direct or indirect financial consideration.

- (4) 'P' Forms for travel abroad to visit close relatives (viz., son, daughter, parents, grand parents, brother and sister) are normally approved for a period of three months, where the travellers are not stated to be dependent on the concerned hosts. This restriction regarding period of stay has no meaning since no limit has been prescribed as to the number of such short-term visits to the same host.
- (5) Airline employees are allowed to go abroad on the hospitality of their colleagues stationed abroad. A study covering a period of six months (1st August 1973 to 31st January 1974) made in respect of employees of Air India to whom 'P' Form approvals have been granted has revealed that —
 - (a) there is a disproportionately large number of persons visiting Hongkong and Singapore as compared to other countries;

- (b) many sponsors are in receipt of low emoluments; and
- (c) Some employees of Air-India abroad have sponsored a very large number of colleagues from India (17 employees have each sponsored between 11 and 15 persons, 7 employees have each sponsored between 16 and 25 persons and one employee as many as 52 persons).

As the travellers in such cases are likely to resort to the unauthorised market for meeting their exchange needs, the procedure has since been somewhat streamlined in consultation with Government.

3.6 These inconsistencies look insignificant when the Foreign Travel Scheme is viewed from the angle of 'P' Form procedure. According to the fundamental concept of 'P' Form mechanism, travellers may be permitted to visit abroad for limited periods if there is absolutely no doubt about any compensatory payments for the hospitality and if satisfactory documentary evidence by way of affidavits from hosts are produced to the Reserve Bank in support of their financial standing. In these cases, it has also to be ensured that any travel under 'P' Form will not directly or indirectly result in delayed receipts, or negative the chances of receipts, of any foreign exchange or rupee funds by any person resident in India. But under the Foreign Travel

Scheme, no question is raised (or supposed to be raised) as to how the travellers will meet their financial needs abroad even if the concerned visitors stay abroad for an indefinite period.

There are reasons to believe that persons going abroad under this Scheme resort to unauthorised channels for meeting their exchange requirements.

In fact, the dollar rate in the unofficial market went up to Rs.13.25 from Rs. 11.50 soon after the introduction of the Scheme and continued to remain at a higher level as compared to the official rate. The inward remittances on private accounts also suddenly slumped from Rs. 139 crores in 1969 to Rs. 126 crores in 1970.

3.7 The 'P' Form procedure has been subjected to various criticisms
Criticisms from time to time

as indicated below:

- (1) The 'P' Form regulations, which permit travel only on the hospitality of approved hosts, have transformed foreign travel into a privilege or a status symbol.
- (2) The right to travel is a universal human urge and it is wrong to treat this normal urge of any person as a luxury.

- (3) The 'P' Form regulations place a premium on dishonesty. Those who are prepared to concoct evidence of hospitality which falls within the acceptable categories are able to travel, while others who may have offers of genuine hospitality cannot do so because they do not fall within the prescribed categories.
- (4) The 'P' Form restrictions have given rise to a new class of touts and their stock-in-trade consists of their knowledge of how best to circumvent the regulations.
- (5) The 'P' Form restrictions have seriously affected Air-India's business. The restrictions have put a curb on the volume of air traffic originating in India and this has greatly restricted Air-India's growth and expansion. By limiting the number of people who can travel abroad from India, the 'P' Form restrictions have led to fierce competition among the airlines to get a share of the limited traffic. To secure a share of the limited air traffic, a number of airlines are indulging in malpractices, particularly giving rebates on the fixed air fares and/or granting unauthorised refunds abroad. The malpractices of airlines and travel agents are greatly a direct consequence of the 'P' Form restrictions.
- (6) The regulations contain several expressions, such as, "institution outside India as is acceptable to the Reserve Bank", "the amount, which is in the opinion of the Reserve Bank, adequate for the maintenance of the traveller", "well-known trade union leader or labour leader", "person of sufficient status", "well-known foreign or international organisation or chamber of commerce", "the traveller being noted for his work in connection with the advancement of education", "such other person specifically approved by the Central Government", "an artiste or musician of standing", etc. and such expressions give to

the Reserve Bank/Central Government unlimited discretion to distinguish between individual cases on the basis of their own view or knowledge.

- (7) The 'P' Form restrictions have been imposed on foreign exchange grounds. Where invitations are received from foreign Governments, acceptance of such invitations has to be approved by the Central Government. Since there is no question of leakage of foreign exchange even indirectly, the consideration is largely from angles other than that of foreign exchange. If there are political considerations, the 'P' Form is not the right instrument to decide as to whether a foreign Government's hospitality should be made use of by an Indian or not. There is a tendency to secure all miscellaneous Government objectives through 'P' Form.
- (8) The one ground on which 'P' Form restrictions have been defended from time to time is by pleading that even the purchase of a ticket involves foreign exchange. In the case of inaugural flights passage is free. When an airline has an inaugural flight and offers hospitality to the passengers, it is not proper for the Exchange Control to say that they must belong to a particular vocation such as journalists, travel agents or hoteliers catering to the airline concerned, etc. and should not include professors, wives of businessmen, etc.
- (9) The 'P' Form restrictions do not permit unfettered personal contacts or interchange of ideas with foreign technicians, intellectuals, professionals, or artistes, thereby blocking the avenue of advancement of knowledge and culture or for fostering the spirit of enterprise and innovation.

- (10) A great deal of emphasis is placed on the development of tourism in India. International tourism is a two-way traffic. If Indians are unable to travel abroad because of 'P' Form restrictions, the expected inflow of foreign tourists into India may not materialise.
- (11) The fact that getting out of India is so difficult discourages Indians living abroad to return to India even to explore the possibility of working in India because they think that once they are back to the country, their movements will be restricted. The exercise of control on the normal movements of persons shakes the confidence of non-resident Indians and affects adversely the flow of remittances to India.

3.8 Apart from the basic inconsistencies in, or the criticisms against, the 'P' Form procedure, the

Administrative
Difficulties

Exchange Control
Department is
facing considerable

difficulties in administering the regulations.

Though the Bank should be mainly concerned, as the Central Banking Institution, with the formulation and direction of the principles and procedures in broad terms, the 'P' Form restrictions have brought the Department to a stage where more and more individual problems are to be tackled on a day-to-day basis. An intensive involvement of this

magnitude has obviously caused a shift in emphasis from the primary objectives to the secondary objectives of the Control. A disproportionate amount of time and energy of the officials of the Department is absorbed in dealing with 'P' Form and FTS applications which, as a rule, have to be dealt with urgently. Consequently, the Department is sometimes unable to bestow adequate attention to important cases in which large sums of foreign exchange are involved. Over a decade, various distortions have grown in the Department and the science of the Control administration has gradually given way to its rituals.

3.9 The main document on the basis of which 'P' Forms are approved for visits to close relatives either on a short-term or a long-term basis, accounting for about 40 per cent of the total 'P' Form applications, is the Sponsorship Affidavit, which is required to be sworn by the concerned host before a Notary Public or a Diplomatic Personnel of the Indian Mission abroad. Quite a large number of affidavits received with 'P' Forms in the Department are countersigned by Notaries

Public and the dealing officials have no means to verify the genuineness of the affidavits. At times, cables are produced in support of 'P' Forms to the effect that the approved host "has met with a serious accident", or "has taken seriously ill" or "is undergoing a major operation" and that the presence of the traveller is absolutely necessary. In these cases too, it is difficult for the officials dealing with 'P' Forms to ensure that the cables produced are not concocted ones. This is not to say that 'P' Forms are not scrutinised carefully or proper checks are not adopted. But it is difficult to say ~~with~~ any certainty that all the 'P' Forms which are approved in the Department are supported by genuine documents or disclose the genuine reasons.

3.10 The licensed airline/shipping companies and travel agents have been permitted to print the 'P' Forms in the prescribed form for submission to the Exchange Control Department. The existing procedure of giving approvals on 'P' Forms with a rubber stamp does not, therefore, provide adequate safeguard. Besides, the chances

of forging the signatures of the passing officials or affixing altogether fictitious signatures on 'P' Forms cannot also be ruled out as specimen signatures of the authorised officials are not supplied to the airline/shipping companies or travel agents. (The specimen signatures of the authorised **officials** are now being circulated amongst authorised dealers). It is quite likely that some unscrupulous parties may take advantage of these loopholes. In fact, there were instances where tickets had been booked against forged 'P' Forms.

3.11 Under the Foreign Travel Scheme, persons who have not gone abroad for a period of three years, can undertake a foreign trip of their choice without the requirement of 'P' Form. The fact whether a particular applicant has gone abroad or not within the prescribed period is verified with reference to his passport. In case any traveller produces an affidavit with his FTS application stating the reason for his inability to produce his previous passport and affirming that he has not gone abroad during the last three

years, and if his renewed or duplicate passport does not bear any certificate of the Passport authorities regarding the date of his re-entry into India from abroad, the Department has hardly any option **but** to approve the application. It is not improbable that dishonest travellers may **attempt** to get over the three-year rule by resorting to such malpractices.

3.12 At the time of approval of 'P' Forms, the period of stay of the traveller is stipulated. But the Department has no machinery to follow-up the cases effectively in order to see that the travellers have indeed adhered to the stipulation regarding the period of stay and/or to go into the question of source of finance in cases of overstayals. In certain cases, approvals are given subject to production of some specified documents within specified periods. It has also not been possible for the Department to pursue these cases properly.

3.13 Consequent on the introduction of travel restrictions, there should have been normally

Impact of
'P' Form

downward trends
in respect of
outward move-

ment of persons from India and remittances of surplus

passage fare and freight collections (passage fare collections roughly account for 40 per cent of the total collections) by foreign airline/shipping companies. There have, however, been continuous increases in the outward flow of both men and money from India, as may be observed from the undernoted tables :

TABLE 'A' - 'P' Form/FTS Applications Approved

Year	No. of 'P' Forms approved	No. of FTS applications approved	Total
(1)	(2)	(3)	(4)
1962	26,608 (June-December)	-	26,608
1963	56,238	-	56,238
1964	45,776	-	45,776
1965	49,201	-	49,201
1966	51,693	-	51,693
1967	59,138	-	59,138
1968	59,418	-	59,418
1969	61,071	-	61,071
1970	48,987	29,698 (March-December)	78,685
1971	64,039	42,160	106,199
1972	59,703	49,794	109,497
1973	67,507	43,679	111,186
1974	79,142	50,299	129,441

TABLE 'B'Surplus Funds Remitted by Foreign
Airline/Shipping Companies

<u>Year</u>	<u>Remittances allowed (Rs. crores)</u>
1967	25.0
1968	23.0
1969	22.0
1970	21.9
1971	26.9
1972	32.8@
1973	34.9*

@ Does not include data pertaining to Calcutta Office for the period April and July-December 1972.

* Does not include data pertaining to Calcutta Office.

The above data would show clearly that the 'P' Form procedure has failed to produce the desired deterrent effect on the foreign travel of Indians without any allotment of exchange from the Reserve Bank. On the other hand, there has been an increase in the number of travellers since the introduction

of Foreign Travel Scheme. *Pari passu*, remittances by the foreign carriers shot up by more than 50 per cent between 1970 and 1973. It will not be unreasonable to believe that despite the regulatory provisions, more and more people are veering round the unauthorised market to meet their foreign exchange needs.

3.14 As larger number of Indians are going abroad in recent years for employment, emigration, etc., there should have been a **proportionate** increase in the inward flow of funds on private accounts (family maintenance, migrants' transfer, money-order drawings, missionary remittances and unclassified receipts). Similarly, with the progressive increase in the number of foreign tourists, earnings from tourism should have recorded a proportionate rise. But it is, however, observed that these trends have not generally been maintained as per

the figures given below:

Year	Inward remittances on private account (Rs. crores)	No. of foreign tourists visiting India	Earnings on account of tourism (Rs. crores)
(1)	(2)	(3)	(4)
1967	102.9	1,94,060	22.32
1968	123.8	2,27,957	25.13
1969	139.3	3,14,407	32.09
1970	126.2	3,62,616	29.51
1971	148.0	3,24,921	30.22
1972	150.0	3,39,905	35.80

Perhaps, a good portion of the funds generated by non-resident Indians and foreign tourists is being absorbed on a compensatory basis by the resident Indians for meeting personal expenses in the course of their foreign trips and for financing the smuggling operations.

3.15 Now the question arises as to whether the 'P' Form procedure can be made more stringent in order to restrict the travel without exchange, particularly on the basis of hospitality of individuals. In the context of progressive relaxations over the years, the reply seems to be a clear

negative. Under the existing regulations, any person who has the willingness to go abroad and has also the requisite rupee funds (accountable or unaccountable) is able to present readily an acceptable 'P' Form application. As a matter of fact, about 99 per cent of the 'P' Form applications are being cleared in the usual course. People are going and will go abroad so long as they have easy access to the unauthorised market and have other incentives for such visits. Having regard to the experience acquired over a long period of thirteen years, it is considered that 'P' Form mechanism is no longer a strong weapon to prevent diversion of foreign exchange to unauthorised channels. It has, therefore, been necessary for the Government/Reserve Bank to look for other remedies to cure the ills.

3.16 With a view to plugging the leakage of exchange through trade channels, making dealings

Measures to Check
Leakage of Exchange

in unauthorised
foreign exchange
markets difficult,

diverting funds to official channels and curbing the smuggling activities, several administrative

and legislative measures have been introduced in the recent past.

3.17 During the last 4/5 years, several steps have been taken administratively by the Exchange Control Department, either on its own or in the light of the recommendations of the Study Team on "Leakage of Foreign Exchange through Invoice Manipulations", to prevent malpractices of unscrupulous importers and exporters.

3.18 Since under-invoicing of exports and over-invoicing of imports are the usual modes for diversion of exchange to unauthorised channels, more powers have been acquired legislatively through the Foreign Exchange Regulation Act, 1973, to deal with such cases effectively. In order to check leakage of foreign exchange arising out of tourism, a new provision (vide Section 15 of FERA, 1973) has been made empowering the Central Government to direct payment in foreign exchange by persons, who are on visit to India, for discharging their liabilities. Administrative instructions have been issued by Government to all hotels that payments from foreigners and also non-resident Indians

should be received in foreign exchange only. On the basis of the recommendations of the Law Commission on "Trial and Punishment of Social and Economic Offences", several new provisions have also been made in the same statute to strengthen the Enforcement Machinery and to provide for more stringent punishments to act as a deterrent.

3.19 In order to check the smuggling operations and to ensure that the foreign exchange dues to the country are not lost, a new legislation entitled "Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974", has been passed. This Act empowers the Central Government to detain any person who is suspected of indulging in smuggling activities and to initiate other deterrent measures. In fact, Government have already launched their offensive against the smugglers under the new legislation in an extensive manner.

3.20 Coupled with these preventive and punitive provisions, some incentives have been offered to the non-resident Indians for making remittances to India through official channels. Non-residents of Indian nationality or origin may open special

accounts, styled "Non-resident (External) Accounts", with banks in India by remittances from abroad (or with remittable rupee funds) with two major benefits that (i) funds lying in such accounts can be repatriated from India freely without the prior approval of the Reserve Bank and (ii) interest accruing on these funds is exempt from Indian taxes. With the increasing interest rates on deposits, the number of such accounts has grown from 1,210 at the end of December 1970 to 20,000 at the end of December 1974 and the balances from Rs.1.3 crores to Rs.28.03 crores during this period. To make the Scheme more attractive, it has since been decided to permit opening of such accounts in designated foreign currencies. Government have also evolved special schemes under which private vehicles (motor cars and scooters), an important agricultural input (tractors) and a key raw material (cement) are allotted on a priority basis against inward remittances.

3.21 Some liberalisations have been made in the fields of investments. Non-resident Indians are freely permitted to make investments in proprietorship/partnership firms or in private/public limited

companies for the purpose of trading or non-trading, industrial or manufacturing activities, with unrestricted freedom to utilise the capital so employed and the income arising out of it within India only. A decision has since been taken to allow investments by non-residents of Indian nationality or origin in selected fields upto 20 per cent of the share capital with the right of repatriation of income and capital from India.

3.22 As a cumulative effect of all these measures, there should be more inflow of funds through official channels. Though no precise figures are available, it is estimated that remittances from abroad are now more by about Rs.10 crores, on an average, per month, as compared to the previous year. There is another redeeming development. The unofficial exchange rate, which is also an important indicator, has also come down considerably. The rate was stated to be Rs.8.50 per dollar in the unauthorised market in November 1974 as against the official rate of Rs.8 per dollar. It is reported that the gap has still narrowed down in the subsequent months and in fact, there is at

present practically no demand for foreign exchange in the unauthorised market.

3.23 Apart from the question of efficacy of the 'P' Form procedure, it is necessary to be conscious

Projection

about an

organisational

problem. The number of 'P' Form/FTS cases has increased by more than 112 per cent from 61,000 in 1969 to 1,29,000 in 1974. Of the total volume, Bombay and New Delhi Offices bear a disproportionately heavy burden, accounting for 46 and 32 per cent approximately. If the volume grows at this rate, these two Offices will have to be expanded enormously within the next five years only to handle such cases. Obviously, this will be a severe constraint.

3.24 It may not, therefore, be worthwhile to continue the 'P' Form procedure. In the event of such a decision, two alternatives may have to be considered. The first alternative is to abolish 'P' Form and re-instate the Basic Travel Quota. It would have been an ideal situation if the pre-1957 scheme under which one could get as much as £.750/- once in two years for foreign travel by merely calling at a bank and producing his passport could

be restored. Obviously, the present foreign exchange position will not simply permit such a luxury. It was hinted some years back that a smaller Basic Travel Quota of £.50/- to £.75/- could perhaps be introduced. The Study Team considers that the size of the quota should be sufficiently large to meet the needs of an average middle-class traveller for a month and perhaps an amount of £.400/- [which is less by £.50/- than the amount (@£.15 per day) admissible to the travelling salesman or persons on study tour for a month] should be the optimum.

3.25 There is, no doubt, some improvement in the exchange position, but it is still not very dependable. Exports recorded an appreciable rise to about Rs.3,304 crores during the financial year ended 31st March 1975, but imports also shot up from Rs.2,925 crores to Rs.4,349 crores during the same period. The external debt of the Central Government which amounted to Rs.5,830 crores at the end of March 1974, moved upto Rs.6,382 crores (estimated) at the end of March 1975. The overall exchange reserves (including 'Gold' and SDRs) of

the country, which stood at Rs.947 crores at the end of March 1974, went up marginally to Rs.969 crores at the end of March 1975 even after a year of record exports. It is likely that the debt repayment programmes will be rescheduled and higher import commitments may have to be made during the next year due to various uncertainties. According to an expert opinion, the question of introduction of a Basic Travel Quota can be considered only when the foreign exchange reserves of the country become equal to the requirements for imports over a period of at least 4 to 6 months. It will not, therefore, be prudent to make any public commitment regarding re-introduction of Basic Travel Quota at this stage. It is also doubtful whether any provision for a Basic Travel Quota even for a small amount would now be acceptable politically in the context of the present economic situation of the country.

3.26 The second alternative is to abolish 'P' Form altogether and make travel abroad without exchange release free from any restrictions. This would be going back to the position prevailing

during the period 1957 to 1962, when travel to the then Non-Dollar Area was free from restrictions.

It would also be tantamount to the removal of ceiling as to the number of visits presently permissible under the Foreign Travel Scheme. It may be recalled that one of the presumptions on which this Scheme has been evolved is that normally people, who can afford to go abroad, would be able to count on some hospitality. Persons going abroad either with 'P' Form approval or with exchange allotment are permitted under the existing rules to spend additional 15 days either to make en-route halts or to visit nearby countries. In these cases, no questions are asked as to how the traveller has financed his extended stay.

3.27 In case 'P' Form procedure is scrapped altogether, there may be an immediate spurt in foreign travel due to the release of the pent-up demand. It is, however, felt that in view of the existence of the Foreign Travel Scheme over a period of five years, the urge for foreign travel for purely social or cultural purposes has been met to a considerable extent. Besides, the various

preventive and punitive measures initiated by Government will have a salutary impact on other elements who undertake foreign travel for smuggling or speculative purposes. There are positive signs that such operators are reluctant to take chances. In addition, there are also economic factors —high international transport costs (return passage fares for Economy Class tickets from Bombay to London and Bombay to New York approximately amount to Rs.9,600/- and Rs.14,000/- respectively at present) and increased cost of living abroad —which will keep down the level of foreign travel even in a control-free situation. It is, therefore, anticipated that due to the resultant action of all these factors, there will not be any significant increase in the number of persons travelling outside India consequent on abolition of 'P' Form.

3.28 The impact of abolition of 'P' Form in terms of direct foreign exchange expenditure would be almost nil because the travellers will not be given any foreign exchange. Since the Foreign Travel Scheme will also have to be revoked at the same time, there will rather be some saving on this account. The yearly

average number of travellers under this Scheme for 1972, 1973 and 1974 was 47,924 and out of them, roughly 50 per cent travelled by Air India. By withdrawing the U.S.\$ 100 facility, the foreign exchange to the extent of Rs.216 lakhs approximately will be saved per annum. There may, however, be marginal increase in foreign exchange expenditure on account of passages booked with foreign airline/shipping companies. As it is, quite a sizable number of passengers travel by foreign airlines. The hundred-dollar facility given under the Foreign Travel Scheme has not induced many travellers to go by Air India as they have been able to attract only about 50 per cent of the travellers proceeding under this Scheme. Their share in respect of travel on 'P' Forms is still less, accounting for only 40 per cent of the total. This large-scale diversion of air traffic from the national carrier is perhaps largely due to the malpractices reported to be indulged in by some foreign airlines.

3.29 In order to curb the malpractices of foreign airlines, a few administrative measures may

be introduced. It is reported that many foreign carriers, particularly the airlines belonging to the Middle East countries, allow considerable discounts to the passengers despite prohibitory rules of, and vigilance by, the International Air Transport Association (IATA). Under the new Foreign Exchange Regulation Act, the Reserve Bank has been vested with powers to conduct inspection of books and accounts of airline/shipping companies and travel agents. A system of inspection by the Reserve Bank may accordingly be evolved at the earliest opportunity. Secondly, a new regulation directing that all persons booking passages against payment of fare in Rupees should pay the amount by means of crossed cheques may be introduced. The foreign-going passengers are usually quite affluent and it is not unreasonable to expect that all of them should have bank accounts. It is considered that with the introduction of these two measures, the malpractices indulged in by the foreign airlines will be checked to a great extent.

3.30 Along with these preventive steps, a further direction may be issued indicating that

persons who desire to undertake foreign travel by air against payment of fare in Rupees, without obtaining exchange release from the Reserve Bank, must travel by Air India (Indian Airlines in the case of travel to the neighbouring countries). Those who are allotted exchange will have, however, the freedom to travel by any carrier of their choice. (This restriction need not be made applicable to the journeys by sea as such cases will be **rather** few and Indian shipping lines have not so far been able to expand their passenger services in a big way). In the event of such an arrangement, there will be generally a saving in regard to the remittance of passage fare collections by foreign airlines and Air India will also have the assurance of patronage by a **sizable** group of passengers. Still there will be some foreign exchange expenditure on account of the coupons uplifted by foreign carriers to enable the traveller to visit places, which are not served by Air India. This foreign exchange expenditure may not, however, be **sizable**. Such a restrictive provision may, no doubt, evoke some criticisms from

foreign Governments/airlines. But the discrimination between the travellers proceeding abroad with exchange release and the travellers proceeding abroad without exchange release can be justified on the grounds that in the former category of cases, the essentiality of the visit is established by Government/Reserve Bank after taking into account various relevant factors and that it is reasonable and proper, in the interest of the Control, to avoid to the possible extent foreign exchange expenditure on account of those persons who decide to go abroad for unapproved purposes. It may be recalled that at the time of introduction of the hundred-dollar facility to induce persons to travel by the national carrier, the question whether this step would either violate any IATA Regulations or expose Air India to retaliatory measures by other countries was examined. It was explained by Air India that IATA would be in no way concerned as it would be a Government directive and that they did not expect any retaliatory measures as most developing countries did take measures in some form or other to support their own carriers. Although the Reserve Bank and Government have received several complaints from

foreign airlines and foreign Embassies against the discrimination, the facility has been allowed to continue by Government. Even under the current regulations, 'P' Forms in respect of certain categories of passengers (i.e. non-residents of Indian nationality or origin paying passages out of their non-resident/blocked/NDRS Special Accounts) are approved only when they travel on a national carrier.

3.31 After careful examination of the whole issue, it is felt that, on balance of considerations, it would be better to abolish 'P' Form altogether. The Administrative Reforms Commission also made the same recommendation as far back as in 1968. Considerable protective measures have been taken since then. Even if some loss of exchange happens in the initial phase after the removal of the 'P' Form Control, it will be only marginal. On the other hand, this relaxation will remove **much** of tension from the Exchange Control Department, make the Control more effective in the core areas and will generally appeal to the members of the public. It may be reasonably anticipated that the overall

impact will be wholesome. As this question has to be finally decided on a political plane by Government, a reference may be made to New Delhi only if the Mint Road concurs with this view.

3.32 We, therefore, recommend that —

- (1) 'P' Form may be abolished;
- (2) The question of imposing restriction that air travel from India without exchange will be permitted only by Air India/Indian Airlines may be examined; and
- (3) The hundred-dollar facility may be withdrawn.

CHAPTER IVGR FORM PROCEDURE

4.1 In the entire spectrum of Exchange Control, Exports Section is placed at the focal point. The

work of this Section

Introduction

has assumed a

particular significance in the context of the rapidly rising exports. Due to various promotional measures initiated by Government, Reserve Bank and other allied institutions and also favourable developments abroad, there has been a sharp increase in exports. During the last year, the exports amounted to about Rs.3,300 crores representing an increase of 31 per cent over the preceding year. Government have targetted a growth rate of at least 10 per cent in exports for the current year. It is anticipated that the total value of exports from India will be around Rs.5,000 crores per annum in about 5 years' time.

4.2 With the increasing exports, it has become particularly incumbent on the Exchange Control Department to ensure that proceeds of all exports from India are realised within the stipulated time in the prescribed manner and also to actively follow-up the cases of default. These tasks, which

are mooted with the objectives of mopping up of exchange earnings by exports and preventing leakage of exchange by unscrupulous exporters, are performed through what is known as 'GR Form Drill'.

4.3 Under the mechanism of GR Form drill, original GR etc. Forms are received by the Department

GR Form
Procedure

from the Customs/

Postal authorities

immediately after the

export. The relevant particulars declared by the exporters on the original forms are, in the first instance, required to be verified with those appearing on the duplicates as soon as the latter forms are received from authorised dealers after the shipping documents are negotiated or sent for collection.

This initial verification is undertaken in order to ensure that the documents of title to the exported merchandise have gone into authorised banking channel. This exercise is supposed to be completed within 5/6 weeks from the date of shipment as the documents should be lodged with authorised dealers by the exporters within three weeks. Offices are

expected to pursue the exporters expeditiously if the duplicates are not received from authorised dealers within the prescribed time. After the duplicates are received, Offices await the triplicate forms which are sent by authorised dealers with necessary certification regarding realisation of the export value (and with account sales statements in the case of exports on consignment basis). The triplicate GR etc. Forms, when received, are verified with the originals/duplicates and if they are found in order, the follow-up procedure is treated as closed. As the export proceeds are required to be repatriated within six months from the date of shipment, the Bank chases the concerned authorised dealers/exporters where the triplicate forms are not received within, or immediately after, the stipulated time. These tasks, though apparently simple, are tremendously significant in the wider perspective.

4.4 Of the various Regional Offices, the Bombay Office carries the maximum burden in this

Work Load in
Bombay Office

regard. The
relevant data
indicating the

position of this Office vis-a-vis the all-India

position are indicated below :

A. No. of Exporters

As on	Number		Percentage of
	ALL-India	Bombay	(3) to (2)
<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>
30- 6-1973	42,159	11,845	28.1
30- 6-1974	49,469	13,678	25.6
30- 6-1975	53,987	14,636	27.1

B. Number of GR etc. Forms received by the Reserve Bank

Period	Nature of Forms	Bombay	Other Offices	Total	Percentage of (3) to (5)
<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>	<u>(6)</u>
1970	GR	4,64,953	6,22,344	10,87,297	
	Others	67,345	1,56,210	2,23,555	
	Total	5,32,298	7,78,554	13,10,852	40.6
1972	GR	4,45,299	7,20,805	11,66,104	
	Others	55,170	1,40,430	1,95,600	
	Total	5,00,469	8,61,235	13,61,704	36.7
1974	GR	5,45,454	6,31,311	11,76,765	
	Others	61,866	1,46,455	2,08,321	
	Total	6,07,320	7,77,766**	13,85,086	43.8

** Figures relating to Calcutta Office for the period November-December 1974 and to other Offices for the month of December 1974 not included.

C. Realisation of export proceeds*

(Rs. in crores)			
Year	All-India	Bombay	Percentage of (3) to (2)
<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>
1971-72	1564.08	615.81	39.4
1972-73	1844.94	792.61	43.0
1973-74	2405.96	1136.87	47.3

* Figures tabulated on the basis of returns received from authorised dealers.

4.5 Having regard to the growing tempo of exports, the 'GR Form Drill' has been reviewed from time to time. The procedure, involving the physical matching

Changes in GR
Form Procedure

of forms at
the original-
duplicate and

original/duplicate-triplicate stages, recording the receipts of forms in Noting Registers by thimble system and coding of only the duplicate forms, was in vogue since the inception of the Control till mid-sixties. As, however, major variations had then been noticed between the declared value and realised value of exports, the procedure was reviewed towards the end of 1965. It was decided that the data available from all the three copies of GR etc. Forms

would be coded separately. Since the follow-up measures were also found to be unsatisfactory, a further decision was taken that reminders to the defaulting exporters and/or their bankers would be issued with the help of machines. (This decision was revoked subsequently as a result of protests by the Employees' Association). The system of physical matching of the forms and recording the receipts thereof in Noting Registers remained, however, unchanged. Since the 1965-procedure was found to be still inadequate for an effective follow-up action, a further review was made in 1970. The major changes then introduced may be broadly summarised as under :

- (1) Discontinuance of physical matching of forms;
- (2) Discontinuance of recording the receipt of forms (original/duplicate/triplicate) in the Noting Register;
- (3) Introduction of computerised control sheets containing the relevant details from the originals;
- (4) Arrangements for storage of forms in a serial order on a monthly basis according to the date of shipment (instead of on an annual basis according to the serial number);

- (5) Scrutiny of duplicate forms with reference to the control sheets (and not the original forms);
- (6) Writing of objection memoranda by Staff Officers, conducting scrutiny of duplicate forms and initiating correspondence with the concerned exporters/authorised dealers on the basis of these memoranda; and
- (7) Scrutiny of triplicate forms by reference to the entries recorded on the face of the forms without linking them with the relative originals/duplicates.

4.6 The revised procedure has not been implemented by the Calcutta Office due to the resistance of the

Working of the
1970 GR Form
Procedure

Employees'

Association

and has also

failed to make any mark in other Offices (including Bombay) where it has been implemented in principle. The computerised control sheets, which form the basis of the follow-up work in the new system, are received in bulk from the Machine Section (Department of Statistics) after 4/5 months mainly on account of delay in submission of the code sheets by the Regional Offices. In view of the time-lag and the difficulties in handling the voluminous sheets and duplicate forms for the purpose of comparison,

tremendous arrears accumulated in Offices: No Office could issue reminders in respect of the outstanding duplicates or letters for reconciliation of discrepancies relating to the duplicate forms, if received, within 6/8 months (against the normal period of 5/6 weeks) from the date of shipment. The very purpose of the duplicate exercise was completely lost due to such an abnormal delay. Secondly, the success of the new procedure depended partly on the performance of the machines and partly on human efforts and the two sides could never be properly co-ordinated. Thirdly, the Balance of Payments statistics got distorted due to uneven flow of data from the Calcutta Office and other Offices. Fourthly, the position of follow-up work in the various Offices (including Calcutta) always remained at different levels, making an overall assessment extremely difficult. Fifthly, the triplicate exercise, which was initiated on the basis of the computerised information, did not also work well and various confusing replies were being received from authorised dealers due to inaccuracies in the data supplied by the machine. In addition, the

Bombay Office (perhaps other Offices also) was generally under-staffed during all these years. As a resultant of all these factors, the grip over the follow-up work in the Exports Section was lost gradually and the Department was exposed to an extremely vulnerable position.

4.7 In view of this unsatisfactory state of affairs, various studies were undertaken by the Department either independently or conjointly with the Organisation & Methods Division during the last few years to find a workable solution. Unfortunately, no tangible decision has been taken to overcome the impasse. In order to prevent further deterioration, the Bombay Office has reverted, apparently on an ad hoc basis, to the pre-1970 procedure. The GR etc. Forms, which were bundled up in messy conditions, are being neatly arranged in a systematic manner. Despite the inflow of control sheets from the Machine Section, physical matching of the forms has been started. After sustained efforts during the usual working hours and continuous overtime work by a large contingent of staff over a period of about 2½ months under a very close supervision, it has been possible to make some progress regarding clearance of arrears.

4.8 The position of arrears in Bombay Office

<u>Arrears in</u>	as on 31st
<u>Bombay Office</u>	July 1975

is as under :

A. Arranging of Export Forms

<u>Period</u>	<u>No. of Forms</u> (Originals, Duplicates, Triplicates and Short- Shipment Notices)
1974 onwards	3,27,076

B. Matching of Export Forms

<u>Period</u>	<u>No. of Forms</u> (Originals)
1973 onwards	2,87,484

C. Issue of Reminders

<u>Nature of the Form</u>	<u>Period</u>
For Duplicate Export Forms	From January 1972 onwards.
For Triplicate Export Forms	From March 1974 onwards.

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D. Scrutiny of Export Forms

<u>Nature of Scrutiny</u>	<u>Period</u>
Duplicate Scrutiny	In respect of Export Forms pertaining to the period August 1972 onwards.
Triplicate Scrutiny	In respect of Export Forms pertaining to the period January 1972 onwards.

NOTE: At present, the scrutiny of Export Forms is done at the final stage after Original/Duplicate/Triplicate Forms have been matched. This scrutiny has been completed to the extent of 80 per cent of the Forms pertaining to 1972; the remaining 20 per cent is still pending.

4.9 These particulars clearly show that the existing GR Form mechanism has failed to achieve the

Strategy for
the Future

desired
objectives in
the Bombay

Office (and presumably in other Offices as well).

It needs no emphasis that this position must not be allowed to continue any further. A definite strategy has, therefore, to be evolved for tackling this problem on a satisfactory basis. In the wake of the growing exports, one cannot certainly recommend continuance of a manual system as a long-term solution

due to its inherent limitations. During these days, the Bank would naturally be expected to give precise particulars of exports - commodity-wise, exporter-wise and country-wise - and also perhaps similar details in respect of the outstanding cases at a short notice. In addition, Offices should be able to complete the scrutiny and compilation of the basic export data and to initiate correspondence with the defaulting exporters and/or their bankers (also with the Enforcement Directorate in doubtful cases) well in time. The Study Team feels that complete mechanisation will perhaps provide the ultimate answer. Even if this view is upheld, many administrative, technical and personnel problems will have to be sorted out before a durable scheme of total computerisation is implemented. If the past is any indicator, it has to be assumed that considerable time and efforts will be required to arrive at a conclusive decision in this regard. A suitable manual method is, therefore, inescapable, at least as a temporary expedient.

4.10 Mere re-introduction of the pre-1970 procedure will not, however, meet the present requirements.

Decentralisation
of work

Under this
procedure

(which is now

being followed in the Bombay Office on an ad hoc basis and is being continued in Calcutta without any break), all the GR etc. Forms are arranged in a centralised manner according to the seriality of their printed number and the entire follow-up action is conducted accordingly. This practice could perhaps work when a limited number of forms had to be handled by the Offices. With the enormous number of forms now pouring in, it is administratively difficult to make any particular employee or employees specifically accountable for the follow-up work. This apart, another contingency - the question of fixing the responsibility in the event of loss or misplacement of any form - may also arise now-a-days. Under the existing manual system, this will be an impossible task. To make the system more effective, some remodelling is, therefore, absolutely essential. The Study Team has gone through the various suggestions made during the last 2/3 years for modification of the procedure and has

also given a very careful thought to the problem.

The Team considers that a workable manual procedure can be evolved only under a scheme of decentralisation.

4.11 Under the scheme of decentralisation, the Exports Section will be sub-divided into various

New Procedure

Sub-sections

for the purpose

of effective control and follow-up action in respect of GR Forms only. The exports covered by PP/EP Forms form a minor portion of the total volume and such Forms will continue to be processed in a centralised manner as at present. For the operation of this scheme, exporters will be first grouped in an alphabetical order and then arranged in each group according to their code number. As each such group will be assigned to a separate Sub-section, the arrangements will be as under :

<u>Sub-section</u>	<u>Exporters arranged alphabetically</u>
1	A, B, C
2	D, E, F, G, H
3	I, J, K, L

etc., etc.,

The Sub-sections will have the responsibility for attending to all items of work (except coding which will continue to be done centrally as at present) relating to the exporters earmarked for them. Broadly, their tasks will be as under :

- (1) Receiving the original GR Forms from the Coding Section after they have been coded;
- (2) Arranging the originals according to their serial number;
- (3) Receiving the duplicates from the Coding Section after the coding;
- (4) Matching the originals with the duplicates;
- (5) Segregating the matched original-duplicates, and arranging according to their serial number;
- (6) Issue of reminders to the exporters in the event of non-receipt of duplicates, at fixed intervals;
- (7) Receiving the triplicates from the Coding Section after coding;
- (8) Issuing reminders to authorised dealers/exporters in the event of non-submission of triplicates, at fixed intervals;
- (9) Scrutiny of the triplicates (and the account: sales statements in regard to the consignment exports) and matching them with original-duplicates.

- (10) Scrutiny of quarterly statements of outstanding export bills received from authorised dealers with reference to the unmatched original-duplicates;
- (11) Referring the doubtful cases to the Enforcement Directorate and/or caution-listing the concerned exporters;
- (12) Dealing with applications for extension of time, reduction of value, diversion of goods from one country to another, change of buyers, modification of the terms of sale contracts, etc.;
- (13) Attending to the applications for remittances of commission, claims, over-price, legal charges, etc.;
- (14) Registration of agency agreements for payment of commission to overseas selling agents;
- (15) Maintaining the requisite files/registers;
- (16) Collection and supply of suitable statistical information; and
- (17) Transferring the pro-complete forms to the Central Records Section of the Exports Section for eventual destruction.

As the entire range of work in respect of the various groups of exporters will devolve exclusively on different Sub-sections, they may definitely be made accountable for any omissions or commissions. The proposed Sub-sections would, at the same time, develop some expertise in regard to the concerned exporters.

4.12 As usual, the originals of GR/EP/PP Forms will be received by the Coding Section from the Customs/Post Offices (through a representative of the Department in the case of local Customs Office and by post from other Offices) and the duplicates/triplicates from authorised dealers with their returns. The Staff Officer of the Section will be responsible for the receipt of the forms after due verification with reference to the relative forwarding schedules and the entry of the requisite particulars in the prescribed register. He should also ensure that the coding work (including the checking and re-checking) is completed on a day-to-day basis according to the standing instructions. After the day's work, all the original/duplicate/triplicate forms should be sorted according to the alphabetical group of exporters (corresponding to the pattern of Sub-sections of the Exports Section) and kept overnight under the charge of the Staff Officer of the Coding Section. The Coding Section should have, therefore, sufficient number of receptacles (almirahs/bins) to store the daily receipts of export forms.

4.13 The Coding Section will make date-wise entries of the number of originals/duplicates/triplicates of the

various export forms in a pass book for transmission to the different Sub-sections of the Exports Section. The concerned receiving Sub-section should verify the number of forms by physical counting and give an acknowledgement in the relative pass book. A separate pass book should be maintained for such transactions with each Sub-section. The distinguishing numbers (printed number/security number) need not, however, be recorded in these transit books as these details may be ascertained, in case of need, by tracing back the relative covering schedules (to be filed serially in the Coding Section) received from the various Customs/Post Offices in respect of the originals and the lists attached to the R returns received from authorised dealers for the duplicates/triplicates. The pass book should have separate folios for originals, duplicates and triplicates. Similarly, there should be separate pass books for PP and EP Forms for the purpose of transmission of the forms to the concerned Sub-sections. It should be ensured that the local forms are delivered to the dealing Sub-sections of the Exports Section and that the forms pertaining to other areas are forwarded to the concerned Offices on the day following the day on which they are coded.

4.14 It is the intention that each Sub-section of the Exports Section should retain, in their direct custody, all the copies of GR Forms assigned to them from the receiving stage till the pro-complete stage. The Sub-sections should, therefore, have adequate number of almirahs/bins to store these forms in a systematic order. Each Sub-section should maintain different ledger-wise records in respect of the originals, matched original-duplicates and original/duplicate-triplicates in the forms given at the end of this chapter. These ledgers will broadly indicate the work-flow and will thus help the Sectional Officers to initiate corrective steps, where required, right at the initial stage. As close supervision can be exercised simultaneously in all the distinct compartments, the total follow-up work will be always under control. If there are any distortions in any group, pointed attention may be given at once.

4.15 The original forms received on a particular day should thus be posted in the ledger and arranged in the receptacles by the respective group according to their serial number. Authorised dealers have been advised to forward the duplicates within 28 days from the date of shipment. On receipt of the duplicates,

the Sub-sections should arrange to match them with the originals on a day-to-day basis. In case the duplicates are not received within the scheduled period, the Sub-sections should issue the first set of reminders to the defaulting exporters on the 40th day (allowing a further time-margin for contingencies) from the date of shipment. For example, if shipments are made on 1st January 1976, the first reminder in respect of the outstanding duplicates should be sent out on 10th February 1976. If no reply is received from the concerned exporter within two weeks from the date of the first reminder, a second reminder should be issued, under registered post with acknowledgement due, calling upon him to arrange for submission of the duplicate form within 10 days and cautioning that in the event of non-compliance with the requirement, his name will be liable to be placed on the Caution List. In case the exporter still fails to respond within the period, action for placement of his name on the Caution List should be initiated according to the prescribed procedure.

4.16 As and when the duplicates are matched with the originals, the matched forms should be segregated and stored in another row (preferably in a different receptacle) according to their serial number. Under the

existing instructions, all duplicate forms are required to be scrutinised by Staff Officers. As all essential details embodied in the original/duplicate/triplicate copies of GR/EP Forms are now invariably required to be verified by the Customs authorities and again by authorised dealers and authorised dealers do not have discretionary powers to allow any deduction from the bill amount, no further examination of the duplicate GR/EP Forms in the Exchange Control Department is considered necessary.

4.17 At present, the triplicate forms are subjected to a prima facie examination in order to verify that the invoice value declared on the face of the form has been fully realised, the certificate appearing on the reverse of the form has been properly furnished by the concerned authorised dealer and also the method of finance indicated is in order. As examination of duplicate forms is being dispensed with, a system of composite scrutiny of original/duplicate/triplicate forms may be evolved. For this purpose, the triplicate forms should first be arranged and merged with the original-duplicates. Thereafter, the scrutiny of the forms may be done by Clerks Grade I. Of the forms so examined and accepted by the clerical staff, 25 per cent of

the forms relating to exports on outright basis will be subjected to a test check by Staff Officers. With regard to the consignment exports, Staff Officers should, however, carry out 100 per cent check of the relative forms and account sales statements after the scrutiny at the clerical level. Date-wise figures of the triplicates forms examined by the clerical and Officer-staff should be recorded by each Sub-section in Original/Duplicate/Triplicate (O/D/T) Ledger. If the triplicates have been accepted as in order, the follow-up procedure should be treated as closed and the pro-complete forms transferred to the Central Records Section through a transit book on a day-to-day basis. The forms under objection should be retained in the dealing Sub-sections until the discrepancies are reconciled.

4.18. As export proceeds should be realised within six months from the date of shipment, authorised dealers have been advised to take up the cases of non-realisation with the concerned exporters promptly after the expiry of that period and to report the specific cases to the Reserve Bank where the proceeds are not still repatriated within three weeks. In the absence of regular flow of

information from authorised dealers to the Reserve Bank, timely follow-up action is not taken in many cases. It is, therefore, necessary to evolve a programme according to which the Reserve Bank should be able to pursue, on their own, the cases where the triplicates have not been received within a reasonable time after the due date. Allowing an overall margin of four weeks beyond the prescribed period of six months, the Reserve Bank should send out the first set of reminders on the 210th day from the date of shipment to the concerned authorised dealers if the triplicates, or applications for extension of time, have not been received by that date. For example, if the shipments are made on 1st January 1976, the first reminder in respect of the outstanding triplicates should be issued on 28th July 1976. If no reply is received from the bank within two weeks, a letter should immediately be issued demi-officially to the Officer-in-Charge of the Foreign Exchange Department of the concerned Bank. In case it is reported that the export value has not been realised, the case should promptly be taken up with the defaulting exporter and further follow-up measures initiated

(including placement of the name of the exporter on the Caution List and/or reference of the case to the Enforcement Directorate) according to the standing instructions.

4.19 In the course of follow-up action, Offices face considerable difficulties in the case where

Discontinuance of
Short-Shipment/
Shut-Out Notices

short-shipments
are involved or
shipments have

been shut-out. In such cases, the concerned exporters are required to file notices in the prescribed forms with the appropriate Customs Offices who have approved the relative GR/EP Forms. Since the data contained in these forms materially alter the quantity and value of the merchandise as declared initially, or negative them altogether, arranging, coding and scrutiny of these notices are very important from the angle of the Balance of Payments statistics. Generally, these notices are not received in time and in many cases, they are completed in an irregular manner. It has not been possible to regularise this system despite long-drawn correspondence with the regional Customs

authorities. The problem in regard to the short-shipment cases would be solved if the Customs authorities adopt the procedure of recording suitable certification on the duplicate and triplicate copies in the space provided for this purpose. Once the Customs authorities agree to introduce this procedure, a 'Notice to Exporters' may be issued advising the exporters to present the duplicate and triplicate copies of the GR/EP Forms to the Appraising Officers in the Customs Offices at the point of shipment for the requisite certification regarding short-shipments, if any. As such certification by the Customs authorities will exonerate the concerned exporters from their obligations to the Reserve Bank to the extent of the short-shipments, they will comply with this requirement readily. Once this procedure is firmly introduced, the Reserve Bank may formally advise the Customs authorities to discontinue transmission of the short-shipment advices. The requisite data regarding short-shipments may be coded straightway in the code sheets for the duplicate forms with reference to the certificates given by the Customs and the present practice of having separate code sheets in this regard discontinued

altogether. The Central Exchange Control Department has already requested the Ministry of Finance to arrange for the issue of suitable instructions to the Customs authorities for introduction of the system of above certification on both the duplicate and triplicate GR/EP Forms. In order to overcome the difficulties arising out of irregular flow of shut-out notices or defective shut-out notices, Offices are, at present, calling for unutilised shipping bills and unutilised duplicate/triplicate forms to establish that the shipments have not actually been made, and coding the requisite data on the basis of these documents. As GR/EP Forms do not contain any provision for recording certification in regard to shut-out cases, the present practice may continue, but the exporters may be advised through the proposed 'Notice to Exporters' to submit these documents expeditiously.

4.20 There is another area where some rationalisation is considered feasible. At present, GR/EP Forms

Uni-Numbering of
GR/EP Forms

bear
three
numbers

as under :

- (1) Printed Number - This is initially allotted by the Reserve Bank with different prefixes (e.g., BY, CA, MA, etc.) in order to indicate the office of issue and the serial number;
- (2) Security Number - This is stamped by the Customs Offices in a running series to enable the Bank to verify that all the forms passed by the Customs on a particular day have in fact been received;
- (3) Check Number - This is given by the Reserve Bank in a serial order on a monthly basis with a view to ensuring that all the forms received from the Customs (and Postal) authorities have been coded for being booked in the Balance of Payments statistics.

As the exporters are now required to present initially all the three copies of GR/EP Forms to the Customs authorities for the purpose of authentication of the real value, total invoice value, commission, discount, overprice, etc., the concerned Customs Offices affix the security number by machine on all the three copies

of the forms and also on the original/duplicate copies of the relative shipping bills. The printed number appearing on the GR/EP Forms was so far the only indicator for the purpose of matching the various copies of the forms. Since all the original/duplicate/triplicate copies are presently being simultaneously allotted separate serial number by the Customs, two different sets of common numbers for the three copies of the forms are not necessary. The numbers which are affixed by the Customs authorities may very well serve the purpose. In order, however, to identify the particular Customs Office which has passed a particular GR/EP Form, it will be necessary for their various Offices to indicate different alphabetical prefixes (e.g., 'B' for Bombay Customs, 'C' for Calcutta Customs, etc.). In the event of such an arrangement, the Reserve Bank will print only the alphabetical prefix (BY, CA, etc.) on the GR/EP Forms, without indicating any distinguishing number, as at present. The Customs Offices will be required to affix their running number (such numbers may run in six digits on an annual basis from 1st January to 31st December) with the requisite prefix on the space to be left blank

after the printed prefix. They may also indicate the particular year in which the forms have been approved by them to facilitate quicker identification. For example, the numbers to be allotted by the Bombay Customs on 1st January 1976 on the forms issued by the various Offices of the Reserve Bank will read as under :

BY B 000001/76

BY B 000002/76

CA B 000003/76

DH B 000004/76

etc.

Under this system, the Customs authorities will have practically no extra work excepting that each Customs Office will be required to have two different series of numbers for GR and EP Forms. On the other hand, the present practice of recording both the printed number (given by the Reserve Bank) and the security number (allotted by the Customs) in the forwarding list may be conveniently dispensed with by them and only one entry showing the first and the last numbers allotted by them on a particular day will be quite sufficient. Since the original GR/EP Forms to be received from the Customs

Offices will bear only one number (instead of two) in a serial order, there will be no need for allotment of a further check number by the Reserve Bank before coding the forms. Although the duplicate and triplicate forms to be received from authorised dealers will not be in a running series, it will be possible for the Coding Section to ensure, with reference to the relative forwarding schedules, that all these forms have actually been coded. In the code sheets for the original, duplicate and triplicate copies of the export forms, both the check numbers and printed numbers are now required to be included in two different columns. These two columns may be removed from the code sheets relating to GR/EP Forms and in lieu, only one column for recording the composite number provided in all the code sheets. This practice will save a good deal of time and labour in relation to the coding work. The procedure of uni-numbering cannot, however, be made applicable to PP Forms which stand on a different footing because of the variations in the pre-shipment procedures. In case the proposal for introduction of the new numbering system in regard to GR/EP Forms is approved in principle, the Central Exchange

Control Department may write suitably to the Ministry of Finance to arrange for the issue of necessary instructions to the regional Customs authorities.

4.21 At present, all EP Forms covering exports to Afghanistan are being approved in advance by the Exports Section and GR Forms are also required to be approved in advance in certain circumstances like exports in connection with joint ventures abroad, exports by Caution Listed parties, etc. If the Reserve Bank discontinues the printing of serial number, a separate approval number and date will have to be recorded on the forms which are approved in advance by the Bank. In such cases, only the number and date of approval will be recorded in the relative registers for the purpose of follow-up action. Since the forms to be approved by the Reserve Bank will also be routed through the Customs Offices as usual, no difficulties in regard to the uni-numbering of GR/EP Forms should arise in these cases also.

4.22 In view of the physical matching of the forms under the proposed system, the Machine Section need not

Overseeing
Follow-up
Action

prepare the
control sheets
incorporating

the details of the originals. In order to enable the Officer-in-Charge to oversee the follow-up action, the Machine Section may, however, furnish the following statements (in duplicate) on a half-yearly basis :

- (1) A list of all originals which are outstanding for six months or more from the date of shipment - this list should be drawn office-wise and exporter-wise; and
- (2) A list of all duplicates which are outstanding for one year or more from the date of shipment - this list should be drawn office-wise, authorised dealer-wise and exporter-wise.

4.23 In addition, each Sub-section should submit, as a matter of routine, a statement on a fortnightly basis to the Officer-in-Charge covering the following data :

(1) Receipts of Export forms:

- | | | |
|-------|-------------|---|
| (i) | Originals | - |
| (ii) | Duplicates | - |
| (iii) | Triplicates | - |

Total

=====

- (2) Examination of Export forms
(applicable to Triplicate
GR/EP Forms and Duplicate/
Triplicate PP Forms):

	<u>Examined</u>	<u>To be examined</u>
--	-----------------	-----------------------

(i) Duplicates	-	
----------------	---	--

(ii) Triplicates	-	
------------------	---	--

- (3) Matching of Export forms

	<u>Done</u>	<u>To be done</u>
--	-------------	-------------------

(i) Duplicates with Originals	-	
----------------------------------	---	--

(ii) Triplicates with Original- Duplicates	-	
--	---	--

- (4) Reminders to be issued
for non-receipt of :

(i) Duplicates in respect of which Originals were received before 2 months	-	
--	---	--

(ii) Triplicates in respect of which Originals were received before 8 months	-	
--	---	--

- (5) Pending Export forms :

(i) Originals for 3 months or more for want of Duplicates	-	
--	---	--

(ii) Original- Duplicates for 10 months or more for want of Triplicates	-	
---	---	--

- (6) Number of pro-complete forms transferred to the Central Records Section -
- (7) Number of letters received during the previous fortnight and still outstanding, showing reasons therefor -

4.24 It is evident that under the proposed system, each Sub-section will be required to carry out the

Formation of
Sub-sections
in Bombay Office

follow-up work
in a very
systematic

and intensive manner. Having regard to the magnitude of the work, the Study Team considers that the Sub-sections should be so formed that each unit is required to handle 60 to 70 original GR Forms per day and the consequential follow-up work at the duplicate and triplicate stages. In case the Sub-sections are entrusted with more number of forms on a regular basis, it will be difficult for them to discharge their duties efficiently and effectively. The number of Sub-sections to be formed in the various Offices will, therefore, depend on the inflow of GR Forms. With regard to the Bombay Office, the Study Team has kept a record of the

receipts of original GR Forms in an alphabetical order for about two months. On the basis of the figures so collected, it is recommended that 12 Sub-sections may initially be created in the Bombay Office for attending to the GR Forms only. The Sub-sections may be arranged in the following manner :

<u>Sub-section</u>	<u>Exporters arranged alphabetically</u>
1	A
2	B
3	C, D
4	E, F, G
5	H, I
6	J, K
7	L, M
8	N, O
9	P, Q, R
10	S1
11	S2, T
12	U, V, W, X, Y, Z

With a view to distributing the work-load amongst the various Sub-sections as equitably as possible, Offices should review the position once in every six months and regroup the exporters, if necessary.

4.25 Apart from the 12 Sub-sections for the GR Form cases, the Bombay Office will have 5 more Sub-sections for attending to the residual items of work as indicated below :

<u>Sub-section</u>	<u>Nature of Duties</u>
13	Exports covered by PP Forms
14	Exports covered by EP Forms (exports to Afghanistan/ Pakistan)
15	Export of Films
16	Deferred Payment Exports
17	Miscellaneous (General correspondence, Allotment of Code Number, GR Waiver cases, compilation of consolidated data, Preparation and amendment of the Caution List, Storage of pro-complete export forms and other sundry items).

The recommendations of the Study Team in regard to the staffing of the Sub-sections in the GR Form Group and also of the other units have been given separately in Chapter XII in the course of general review of the staff position of the Department.

4.26 It is recommended that the new scheme of work in the Exports Section may be introduced at the earliest opportunity, preferably with effect

from 1st January 1976. While implementing this programme, it has to be ensured that the GR Forms relating to the pre-1976 period are not mixed up with the forms to be processed under the new procedure.

4.27 We, therefore, recommend that -

- (1) GR Form procedure may be conducted by manual method as a temporary expedient;
- (2) Handling of export forms in the Department may be decentralised;
- (3) Examination of duplicate GR Forms may be dispensed with;
- (4) Uni-numbering of GR/EP Forms may be introduced; and
- (5) Receipt of Short-Shipment/Shut-Out Notices in the Department may be discontinued.

ANNEXURE IV/1

LEDGER - GR Forms

ORIGINAL/DUPLICATE

Date	Originals Received	Duplicates Received	Original- Duplicates Matched	Matched Original- Duplicates put away
(1)	(2)	(3)	(4)	(5)

	Work	Pending		Initials of Staff Officers
Dupli- cates to be matched with Originals	Originals received before two months, but corres- ponding Duplicates not received.	Reminders not issued in respect of Column(7)	Originals pending with the Section for eight months or more for want of Duplicates	
(6)	(7)	(8)	(9)	(10)

ANNEXURE IV/2

LEDGER - GR Forms

ORIGINAL-DUPLICATE/TRIPLICATE

Date	Matched Originals/ Duplicates	Tripli- cates Received	Origi- nals/ Dupli- cates and Tripli- cates matched	Origi- nals/ Dupli- cates/ Tripli- cates Examined	Examined and matched Original- Duplicates/ Triplicates transferred to Records
(1)	(2)	(3)	(4)	(5)	(6)

Work Pending					Initials of Staff Officers
Tripli- cates to be matched with Original- Dupli- cates.	Origi- nals/ Dupli- cates/ Tripli- cates to be examined	Originals received before eight months, but corres- ponding Tripli- cates not received	Remind- ers to be issued in respect of Column (9)	Original- Dupli- cates pending with the Section for ten months or more for want of Tri- plicates.	
(7)	(8)	(9)	(10)	(11)	(12)

CHAPTER V

REVIEW OF POLICIES AND PROCEDURES
IN SELECTED AREAS

5.1 The policies and procedures in regard to the administration of Exchange Control are under

Introduction constant review
and changes are

effected, where necessary, in the light of the developments. The Study Team has gone into the policies and procedures in certain selected areas and makes recommendations for some modifications in the following paragraphs.

5.2 Until August 1974, Staff Officers had considerable powers, practically without any

Permit Procedure monetary limit,
to approve cases

which were clearly covered by a sanction of the Ministry of Finance (Department of Economic Affairs), Exchange Control copy of a valid import licence, or by the authority delegated to the Regional Offices, provided no discretion had to be exercised. In cases so approved by Staff Officers by virtue of the powers vested in them or by Officers at a higher level, exchange could be

released for any amount by issue of letters or permits on ordinary paper or by according approval on the reverse of prescribed Exchange Control forms (e.g.A,A/7) by any Staff Officer of the Department. As some cases of alleged fraud came to the notice of the Department, this procedure was, amongst other preventive measures, tightened with a view to providing adequate safeguards in the system. The salient features of the new permit procedure are as under :

- (1) Value-limits have been prescribed for the purpose of release of exchange by Officers at different levels, as under :

	<u>Categories of Officers</u>	<u>Limits for dealing with remittance applications</u>
(i)	Assistant Exchange Control Officers and Staff Officers	Upto Rs. 2,500/-
(ii)	Exchange Control Officers	Upto Rs.25,000/-
(iii)	Assistant Controllers	Upto Rs.1 lakh where the Office is under the charge of a Deputy Controller and upto Rs.20 lakhs where the Office is under the charge of an Assistant Controller.

- (iv) Deputy Controllers Upto Rs.50 lakhs (Deputy Controllers in Central Office may deal finally with all cases irrespective of the amount provided the regulations are complied with).

NOTE: Although Calcutta Regional Office has since been placed under the charge of a Joint Controller, no separate value-limits have been prescribed. The Joint/Deputy Controllers in charge of the Regional Offices have, however, been empowered to deal finally with all applications, which are covered by the sanction of the appropriate authority of the Government of India, without any monetary limit(e.g. remittances towards repayment of principal of and interest on foreign currency loans obtained by companies/firms from international financial institutions, provided the loan agreement has been approved by Government of India).

- (2) All approvals/permits authorising release of exchange or transfer of rupees to non-resident bank accounts for amounts in excess of Rs.2,500/- should be signed by two officials of the Department. The countersigning official should be either an Exchange Control Officer or an Officer of a higher rank. The limits for countersigning permits are as under :

<u>Categories of Officers</u>	<u>Limits for counter-signature of permits</u>
(i) Exchange Control Officers	Permits/approvals not exceeding Rs.2 lakhs
(ii) Assistant/Deputy Controllers	Permits/approvals above Rs.2 lakhs.

- (3) Only those Officers who are required to deal with applications involving release of exchange will have the sanctioning/countersigning powers. Officers engaged in the verification of R returns or attached to Coding, Enquiries, etc. Sections will not be given these powers.
- (4) The specimen signatures of the designated Exchange Control Officers and Officers of the higher rank, who are empowered to countersign exchange permits, are circulated by the Regional Offices to all authorised dealers in their respective area.
- (5) All exchange permits are required to be issued only on special water-marked security paper and no approval will be recorded on the prescribed Exchange Control form (e.g. Form A/A7) or conveyed through letters. The permit forms are in the form of books with machine-numbered pages and bear an emblem of the Reserve Bank. Permits in all cases should be typed in pin point typewriters.
- (6) The concerned Deputy/Assistant Controller is required to conduct daily check of 100 per cent of the permits/approvals exceeding the value of Rs.1 lakh and 5 per cent of the remaining permits/approvals in order to verify that the permits/approvals have been given correctly.
- (7) Authorised dealers have been advised that they should not effect any remittances in foreign exchange or make rupee transfers to non-resident bank accounts against permits issued by the Reserve Bank for value of Rs.50,000/- and above unless payment is received from the remitter by debit to his account with the concerned authorised dealer or, where he is not their own customer, by means of a crossed cheque drawn on his bankers.
- (8) All applications (excepting applications for release of exchange for travel or for higher studies/training) seeking remittance in

foreign exchange should necessarily be routed through an authorised dealer and should bear the stamp and signature of the concerned authorised dealer. The decision taken on such applications and the relative permit (where the application is approved) are communicated/delivered only to the concerned authorised dealer and not to the applicant. In exceptional cases, the permit may be delivered to the applicant only on production of a letter of authority from the authorised dealer.

SAME

- (9) Permits on security paper authorising miscellaneous or recurring remittances in foreign currency, or credits to non-resident bank accounts, are issued only in the names of authorised dealers through whom the relative applications are received. If the remittances are desired to be made through another authorised dealer, the Reserve Bank's specific approval has to be obtained.
- (10) Exchange under travel permits may be purchased by the traveller (or the firm/company in whose favour they are issued) only from a branch of an authorised dealer working within the jurisdiction of the particular Office of the Reserve Bank which has issued the permits. In case of urgency, exchange may be purchased from authorised dealers operating in other areas only after the signature of the concerned countersigning official is verified by the Office of the Reserve Bank in whose jurisdiction the exchange is desired to be purchased.
- (11) The revalidation of permits has to be authorised by Officers at the same level at which the authority for the sanction of exchange in any particular case vests and such revalidated permits are also

required to be countersigned by an appropriate Officer.

5.3 The new procedure has undoubtedly distinct merits from the security angle, but it has, at the same time, thrown an enormous administrative burden on the staff and created some bottlenecks at certain important stages (e.g. typing, countersigning of permits, etc.), resulting in delay in disposal of applications. Most of the applications are required to be seen at higher levels at two stages - once at the time of approving the remittance and again at the time of countersigning the permits. It takes normally seven to ten days in some Sections in the Bombay Regional Office to issue permits after the decisions have been taken by the appropriate authority. In order to remove the bottlenecks without affecting the basic safeguards, the Study Team has examined the new procedure and recommends some modifications, as under :

- | | |
|---|---|
| (1) The value-limits prescribed for disposal of remittance applications may be revised as under : | |
| <u>Designation of Officers</u> | <u>Revised limits for dealing with remittance application</u> |
| (i) Assistant Exchange Control Officers and Staff Officers | Upto Rs.25,000/- |
| (ii) Exchange Control Officers | Upto Rs. 1 lakh. |

- (iii) Assistant Controllers Upto Rs.5 lakhs (Rs.20 lakhs where Office is under the charge of an Assistant Controller).
 - (iv) Deputy Controllers Upto Rs.50 lakhs
 - (v) Joint Controllers Without limit (At present, there except where is Joint Controller applications are at Calcutta and required to be the Study Team has referred to proposed for Central Office. sanction of a post of Joint Controller for the Bombay Regional Office)
- (2) Notwithstanding the general framework of the above limits, it is considered that value-limits may be removed in respect of Exchange Control Officers for certain specified purposes, as indicated below :
- (i) Applications for release of exchange for higher studies abroad (since the policy in this regard is clear and no discretion is involved);
 - (ii) Remittances which are clearly covered by the sanction of the appropriate Government Departments (e.g. participation in exhibitions/fairs abroad, Government officials proceeding abroad, participation in film festivals, etc.); and
 - (iii) Remittances towards payment of instalments of, and interest on, foreign currency loans in cases where —
 - (a) the relative loan applications have been initially approved at the appropriate senior level;

- (b) the schedules in respect of the instalments for repayment of principal and interest have been determined firmly before approval of the loan proposal; and
 - (c) bank guarantees have been furnished in favour of the overseas lending organisations regarding these payments.
- (3) At present, the Regional Offices are circulating to authorised dealers in their respective areas, the specimen signatures of officials authorised to countersign the permits so that they can verify the signatures before effecting remittances against permits of value exceeding Rs.2,500/-. Specimen signatures of Staff Officers are not circulated. This means that authorised dealers are not required to verify the signatures of Officers where the value of a single permit is Rs.2,500/- or less. This is an anomalous position. It is, therefore, suggested that the specimen signatures of Staff Officers, who are empowered to approve the remittances and sign the permits, may be circulated to authorised dealers. Authorised dealers may be instructed that they should verify the signatures of officials authorising remittances, irrespective of the amounts involved.
- (4) Once the signatures of all signing officials (and not merely of the countersigning officials) are circulated to authorised dealers, it will be possible to discontinue the system of counter-signature of permits. So long as the decisions for release of exchange are taken at the appropriate level, the permits are issued on the special water-marked security paper having Bank's emblem (duly typed on pin point typewriters) under the signature of an official whose specimen signature is recorded with authorised dealers, a special audit of the permits is

conducted on a day-to-day basis by an Officer at the controlling level (Deputy or Assistant Controller) and still another audit is made on receipt of R returns from authorised dealers, there is no risk involved in abolishing the procedure for countersignature. It may be pertinent to add that import licences are issued on security paper and signed by one official only, irrespective of the values involved.

- (5) It has been assessed, on a rough basis, that the amount of exchange released in about 12 per cent cases by the Bombay Office does not exceed £.15/- or its equivalent. Since the new procedure for issue of permits even for such small amounts on security paper entails unnecessary cost and labour and also causes some inconvenience to the applicants due to delay, the Study Team has examined whether the previous practice of according approval on prescribed Exchange Control form(A/A7) may be restored to a limited extent. Authorised dealers have powers to effect remittances for certain purposes, without prior approval of the Bank, upto specified limits (e.g. U.S.\$ 100/- towards membership fees by individuals, £.15/- for correspondence courses or admission fees, £.12/- for examination fees, etc.). Having regard to these limits and assuming that the signatures of the concerned Staff Officers will be circulated to authorised dealers, the Study Team recommends that the issue of exchange permits on security paper may be dispensed with for release of exchange upto £.15/- or its equivalent and approvals for such amounts may be given by the Department on Form A/A7, irrespective of the purpose, under the signature of only one designated Staff Officer. Authorised dealers will be advised to be particularly careful about verification of signatures of the issuing officials in such cases.

5.4 Applicants are oftentimes required to produce bank certificates showing the realisation of export

Verification of
Bank Certificates

proceeds, receipt
of remittances from
abroad or encashment

of foreign currency, in support of their applications for various facilities/benefits/entitlements under the Exchange Control Regulations. Authorised dealers have been instructed to issue such certificates on forms printed on security paper (similar to cheques and draft forms) in the prescribed proforma. The certificates should be signed or countersigned by an official of the issuing bank whose specimen signature is on record with the Banking Department of the Reserve Bank in whose jurisdiction the issuing branch is situated. Before acting on the bank certificates, the Regional Offices are required to get the signature of the signing/countersigning officials verified by the Banking Department under the stamp and signature of a Staff Officer. (The certificates issued by the banks functioning within the jurisdiction of Cochin Office are sent to the Deposit Accounts Department of Madras Office for

verification). It has, however, been clarified that the Regional Offices may accept bank certificates on plain paper where such certificates are issued to show the realisation of export proceeds and are submitted in support of applications for release of exchange for travel abroad on export promotion grounds, or for issue of blanket permits, provided the certificates have been issued on the particular authorised dealer's letter-head and signed by an official of the issuing bank whose specimen signature is on record with the local Banking Department.

5.5 This procedure has contributed to certain administrative problems and considerable time is taken to comply with this requirement. In Bombay, the Travel Section is housed in Mercantile Bank Building and the Deposit Accounts Department is housed in the Main Building of the Bank. It is understood that in the absence of any special efforts, about three weeks' time is used up in the process of referring such bank certificates to Deposit Accounts Department and receiving them back after verification of the signature.

Obviously, this is a serious constraint. The problem of Cochin Office is still worse inasmuch as the bank certificates travel to and from Madras (mostly under registered post).

5.6 The Study Team has considered the procedure and feels that verification of signatures on the bank certificates should be done in the Department itself. For this purpose, authorised dealers may be asked to supply to the Department a list of specimen signatures of all officials who are authorised to sign the bank certificates. The specimen signatures of the concerned officials should be countersigned by an official whose signature is on record with the local Banking Department. Once this signature is got verified by the Banking Department, the list may be kept in the Exchange Control Department in the personal custody of the Assistant Controller (Travel). According to the revised procedure, Regional Offices will be required to send the specimen signatures to the Banking Department for verification only when the list is first received. As and when any fresh signature is received, it should similarly be got verified by Deposit Accounts

Department and recorded accordingly.

When any cancellation advice is received, the signature of the official, who has signed the letter, should be got verified by the Deposit Accounts Department before taking any action. The actual verification of signatures on the Bank certificates may be carried out by a Staff Officer of the Exports General Section. The Assistant Controller (Travel) will be responsible only for the safe custody of specimen signatures. It should be made clear that under no circumstances, any Officer of the Travel Section should undertake verification of the signatures. It may be worthwhile to remember that in the Public Accounts and Deposit Accounts Departments where cheques/drafts of even very high value are passed, the specimen signatures of the issuing officials are recorded only in the concerned Department and verification of such signatures appearing on the cheques/drafts is ~~done~~ by the concerned passing official himself. The procedure now suggested for the Exchange Control Department will, therefore, continue to be more rigid, as compared to the

procedure obtaining in the Banking Department.

5.7 According to an existing procedure, firms/companies can arrange with all their bankers to file bank certificates in the prescribed form with the Reserve Bank regularly in the months of January and July to facilitate quicker disposal of their applications for release of exchange for foreign travel for export promotion or for the issue of Blanket Permits. Once such certificates are filed, the applicant firms or companies need not submit such certificates with individual applications. It would be enough if the applicants only cite the number and date of their letter with which their latest half-yearly certificates have been filed.

5.8 The Study Team has observed that this procedure has not sufficiently been popularised by the Department. Even in cases where firms/companies have given reference to the letter forwarding the half-yearly certificates, the Section concerned has not often been able to trace the reference. Steps should be taken to write individually to all the firms/companies engaged in the export trade, impressing upon them the need for, and benefit of,

filing such half-yearly bank certificates on a regular basis. Simultaneously, the procedure in regard to storage of half-yearly certificates should be streamlined. All the half-yearly certificates should be properly filed (company-wise and date-wise), after the signatures thereon have been duly certified by the designated Staff Officer. The files containing the half-yearly certificates should be kept in the custody of the Assistant Controller (Travel).

5.9 Exchange is released for foreign travel at different scales to different categories of travellers, depending upon the purpose and duration

Scales of Exchange of visit. The scales for business travel

were enhanced thrice during the past four years due to continuous increase in the cost of living abroad. On the same basis, the scales of exchange for persons going abroad for participating in conferences or undertaking study tours/short-term specialised training were also increased. (In most of these cases, the scales for business are applied). Similarly, the scales for release of

exchange for higher studies/long-term training have been revised twice during this period. While scales of exchange for certain categories (e.g. businessmen, students) have been enhanced, scales admissible to several other categories have not, however, been revised, as indicated below :

- (1) Travellers proceeding abroad on 'P' Form on the basis of invitation from foreign Governments or for attending conferences/seminars on the basis of invitations from overseas institutions ;

Government have since sent proposals to the Bank in this regard for comments

- (2) Persons proceeding abroad for medical treatment and their attendants;
- (3) Officials of companies, banks, etc. posted for duty in overseas offices/branches;
- (4) Newspaper correspondents posted abroad;
- (5) Persons proceeding abroad for employment;
- (6) Foreign-born wives of Indian nationals; and

The Department has since taken up a study for this category separately

- (7) Persons proceeding abroad for specialised training for longer periods.

The Department has already sent proposals to Government

5.10 According to the existing practice, the scales of exchange are generally reviewed only on

receipt of representations from the Export Promotion Councils, Federation of Indian Chamber of Commerce, Educational Institutions or Indian Missions abroad and suggestions are put up to Government for approval. As scales of exchange reflect directly the trend of the cost of living in foreign countries, the benefit of upward revision should be extended proportionately to all categories of persons proceeding abroad and not necessarily to a few selected categories.

This discriminatory approach often causes complaints from the public. It would be advantageous to evolve a system whereby the Department conducts periodical studies to see if the scale of exchange need any revision. For the purpose, arrangements may be made with Indian Missions in selected countries to obtain a schedule of tariff quoted by different classes of leading hotels in the respective countries and other relevant material to assess the extent of rise in the cost of living abroad. On the basis of the information received from the Missions, a general review of the scales may be undertaken. This will avoid taking ad hoc decisions in respect of any particular category or categories of travellers.

It is, therefore, suggested that a comprehensive review in respect of all categories of travellers (short-term or long-term) may now be undertaken to avoid any piecemeal decisions.

5.11 Until the devaluation of Indian Rupee in 1966, exchange permits issued to travellers were expressed in rupees in all cases and authorised dealers used to sell foreign exchange against the allotments so made. Since travellers started getting less foreign exchange consequent on the devaluation of Rupee, it was decided to express the exchange permits in U.S. Dollar/Pound Sterling which were fairly stable at that time. Since then, the exchange permits for travellers continue to be expressed in U.S. Dollar or Pound Sterling. (In the case of Bilateral Account Countries, permits are issued in Rupees and a part amount is allowed to be drawn in convertible currency). Authorised dealers have, however, been advised to issue travellers cheques, etc. in Sterling, U.S. Dollar or in any other convertible currency, as may be desired by the concerned traveller, irrespective of the currency in which the amount is expressed on the exchange permit and the country of visit specified on the permit except where

the permit has been issued in connection with a visit to a Bilateral Account country. In respect of long-term visits, there is, however, no uniformity. Exchange is released to students in U.S. Dollar or Pound Sterling, whereas permits issued in connection with the posting of newspaper correspondents are expressed in Indian Rupees. Wherever powers have been delegated to authorised dealers to effect remittances, without prior approval of the Reserve Bank, the limits have generally been expressed in Pound Sterling (lately in U.S. Dollar in certain cases). But the limit upto which recurring remittances by foreign nationals may be allowed by authorised dealers has been indicated in Rupees. Similarly, the Regional Offices are empowered to approve remittances in certain cases upto specified limits either in Rupees or in foreign currencies. As expression of these limits in different currencies for different purposes causes confusion and neither U.S. Dollar, nor Pound Sterling, is now as stable as it used to be, it is suggested that scales of exchange for all purposes may be

uniformly expressed in Indian Rupees. In fact, the earlier objective of popularising Indian Rupee in the international market will be better served if this system is adopted.

5.12 The Regional Offices have powers to approve applications from importers in India for payment of

Buying Commission
on Imports

commission to
their over-
seas agents

subject to the condition that the rate of commission does not exceed $2\frac{1}{2}$ per cent of the f.o.b. value of imports and the amount so paid is marked off on the Exchange Control copy of the relative import licence. Offices also grant general permission to large importers for remittance of commission to their overseas buying agents on a regular basis subject to the same conditions.

5.13 The concept of payment of buying commission came up at a time when there were acute scarcity conditions and purchasers had to run after the suppliers. The pattern of world trade has undergone drastic changes in the recent years. The real problem to-day is 'how to sell' and not 'how to buy'. Normally,

all incentives are offered by the sellers to induce the buyers to lift their products. Even the market information system has become more sophisticated and fast-moving. It is not difficult even for the common buyers from the international market to have first-hand information about the competitive cost, sources of supply and the quality of importable merchandise. In the context of these developments, services of any agent for purchase of goods in any overseas market is not now generally necessary. In fact, very few individual buyers take the assistance of agents now-a-days. Applications for approval of buying agency arrangements are mostly received from large companies who have inter-connected concerns abroad. The particulars of a few such cases are given below :

<u>Indian Companies</u>	<u>Overseas Agents</u>
(1) Birla Bros.Pvt.Ltd. (and other concerns in Birla Group)	(i) Birla A.G.,Zurich (ii) East India Produce Co.Ltd., London.
(2) Tata Sons Pvt.Ltd. (and other concerns in Tata Group)	(i) Tata Inc., U.S.A. (ii) Tata Sons Ltd., U.K.
(3) Ahmedabad Mfg. & Calico Printing Co. Ltd. (and other companies of Sarabhai Group)	(i) Bakhubhai & Ambalal Ltd., London (ii) Sarabhai Agencies, New York

These leading industrial groups utilise the existing facility for payment of buying commission to their overseas subsidiaries or associates.

5.14 Having regard to the changed perspective and the need for conserving the precious exchange, the Study Team recommends that the existing provision for payment of buying commission on imports may be revoked.

5.15 According to the existing procedure, applications received from firms/companies for

<u>Opening of</u> <u>Offices Abroad</u>	establishment of offices abroad are required to
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be forwarded to Central Office together with particulars regarding the means and standing of the applicants (as may be certified by the bankers), nature and volume of their business and reasons for establishment of an overseas office. In the absence of suitable guidelines to the Regional Offices, all applications received in this regard are forwarded to Central Office as a matter of routine. With a view to avoiding infructuous references to Central Office, it is suggested that the factors which are

generally taken into account while considering such applications may be circulated to the Regional Offices. The broad guidelines followed at present for approval of such applications are as under :

- (1) The main objective of the proposed overseas office should be promotion of exports;
- (2) The applicant firm/company must have had substantial exports to their credit - Rs.25 lakhs in the case of non-traditional items and Rs.50 lakhs in the case of traditional items. (It is understood that proposal for raising the minimum limits are now under consideration of Government. Changes, if any, in this regard may be notified to the Offices);
- (3) The applicant firm/company should be of good means and standing and should be well-organised;
- (4) The applicant firm/company should have the potential to increase their exports;
- (5) The amount of foreign exchange that has been spent annually by the concerned firm/company during the past two/three years on travel abroad and on payment of commission on exports to agents in the territories which the proposed office is desired to serve should be comparable with the annual estimated expenditure of the proposed office; and
- (6) The concerned applicant/firm should not be in the adverse notice of the Foreign Exchange Enforcement Directorate and its export outstandings should not normally be unreasonably high (say, not exceeding 10 per cent of its annual exports).

5.16 While advising the guidelines, the Regional Offices may also be instructed that applications should be scrutinised initially at their end in the light of these guidelines. If any firm/company does not fulfil the prescribed export requirements or show any promise of fresh exports, its application may be straightway rejected without reference to Central Office.

5.17 In terms of Section 32 of the Foreign Exchange Regulation Act, 1973, licences are issued to

<u>Licences to Airlines/</u>	airline/shipping
<u>Shipping Companies</u>	companies and
<u>and Travel Agents</u>	travel agents for

carrying on the business of booking passages for foreign travel. The work relating to issue of licences to airline/ shipping companies and travel agents and renewal thereof is centralised at the Central Office.

5.18 Originally, the licences to airline/shipping companies and travel agents were being granted for a period of three years at a time. With the passing of the new Act, it was decided to restrict the validity period of such licences to six months in the case of travel agents and one year in the case

of airline/shipping companies, pending framing of guidelines in regard to the issue of licences in these cases. Consequent on the representation made by the Travel Agents' Association of India that the six months' validity period of licences had been creating difficulties to their members, a decision was taken to issue/renew licences to travel agents also for a period of one year.

5.19 There are about 93 travel agents and 40 airline/shipping companies to whom the Bank has granted licences. Since the validity period of the licences is one year in all these cases, 133 applications are received every year in Central Office for renewal of licences. In addition, applications are received from the new entrants also. If the licences are renewed for longer periods, the burden of licensing work in this regard will be reduced. The Reserve Bank can, at any time, revoke the licence granted to any airline/shipping company or travel agent, if the particular licensee has not complied with the conditions of the licence or has contravened any of the provisions of the Act. The new Act empowers the Reserve Bank to inspect the books of accounts

and other documents of airline/shipping companies and travel agents. With the introduction of the system of regular inspection and closer scrutiny of the periodical statements of bookings received from such airline/shipping companies and travel agents, it will be possible to have an effective check on their activities. The Study Team, therefore, feels that there will be no particular risk if the licences are issued/renewed in favour of airline/shipping companies and travel agents for three years at a time. In the case of airline companies, it may also be considered whether licences can be issued for periods upto which the concerned airline has been permitted by the Director-General of Civil Aviation to operate their services to/through India. Generally such operating permits are issued for an unspecified period.

5.20 Airline/shipping companies and travel agents have been permitted to make their own arrangements

Circulation of
Specimen Signatures
of Officials authorised
to sign 'P' Forms

for printing
of 'P' Forms,
provided the
form conforms

to the specimen prescribed by the Reserve Bank.

Approvals on 'P' Forms are recorded by the Department

on the form itself under the signature of a Staff Officer. The specimen signatures of Staff Officers, who sign the 'P' Forms, are not, however, circulated to the airline/shipping companies and travel agents. This procedure leaves scope for abuse. In fact, there have been cases where bookings for foreign travel have been made against forged 'P' Forms.

5.21 In order to plug the loopholes in the procedure, the Study Team recommends that the specimen signatures of Staff Officers, who have been authorised to sign 'P' Forms, may be circulated to all airline/shipping companies and travel agents. They may be instructed that at the time of booking the passage, they should satisfy themselves that the 'P' Form has been signed by an Officer whose specimen signature is on record with them.

5.22 The Reserve Bank has granted general permission to airline/shipping companies and travel agents to

Booking of Passages
against Exchange
Permits

book passages of
travellers, without
the Bank's approval

on Form 'P', where the traveller concerned has been granted a foreign exchange permit. In the absence of any instructions to the airline/shipping companies

and travel agents, no endorsement is made on the exchange permits regarding issue of tickets. This may lead to undesirable practices. There were cases where the permit-holders managed to book their passages more than once against the same exchange permit. Apart from the risk of misuse, the present system creates an administrative difficulty. The Section dealing with remittances of surplus passage collections by foreign carriers is required to verify the particulars of exchange permits, cited in the monthly statements, with reference to the records of the concerned issuing Sections. Oftentimes, the permit registers cannot be readily spared by these Sections. In fact, this verification is not practically done in the Bombay Office due to non-availability of the relative registers.

Where the permits pertain to other Offices, letters are written for obtaining their confirmation. Some time and labour are also wasted in the process.

5.23 In order to obviate the difficulties faced in the Regional Offices in verifying the details of exchange permits against which passages have been booked by the airline/shipping companies and to prevent the possible misuse, the Study Team recommends that exchange permits may be issued in duplicate, the first copy being

typed on security paper and marked "For Drawing Exchange" and the second copy being typed on ordinary paper and marked "For Booking Passage". This procedure will be broadly on the lines of import licences which are issued in duplicate for Customs and Exchange Control purposes. Airline/shipping companies and travel agents may be advised to book passages of intending travellers against exchange permits (except Blanket Exchange Permits) only on production of the copy marked "For Booking Passage" after satisfying themselves that the permit has been signed by an Officer whose specimen signature is on their record. For this purpose, it will also be necessary to circulate the specimen signatures of those Staff Officers, who are authorised to sign exchange permits, to airline/shipping companies and travel agents. Copies of these permits should be forwarded to the Reserve Bank by airline/shipping companies along with the monthly statements (where tickets are issued by any travel agent, the permit may be sent by the agent to the concerned company for onward transmission to the Bank). The procedure of issuing permits in duplicate need not, however, be introduced in

respect of Blanket Exchange Permits. As such permits are granted only to large exporters, the possibility of double booking in these cases may be discounted.

5.24 The Study Team is aware that the question of issuing passage permits along with exchange permits was examined in the Department earlier. Although this proposal could not be approved, it may be examined once again, at least from the angle of scrutiny of the passage statements.

5.25 Airline/shipping companies and travel agents submit to the Reserve Bank monthly statements of

Statements of
Passages Booked

passages booked
under the authority
granted to them

and on the basis of 'P' Forms approved by the Reserve Bank. These statements run into several pages, particularly in the case of large airline companies. The staff of the Department checking the statements experience considerable difficulties in handling these voluminous statements in the absence of any systematic arrangements of the data.

5.26 In order to facilitate this scrutiny, airline/shipping companies and travel agents may be advised to

bifurcate the passage statements into two groups as under :

- Group I - Passages booked under the authority delegated by the Reserve Bank; and
- Group II - Passages booked against 'P' Forms approved/exchange permits issued by the Reserve Bank.

While bookings reported under both the Groups will be subjected to 100 per cent check by Staff Officers checking by the clerical staff may be eliminated altogether in order to expedite the processing⁷, the concerned Exchange Control Officer will exercise 25 per cent check in regard to the bookings reported under Group I and 10 per cent in respect of cases reported under Group II.

5.27 The Department has recently issued instructions to authorised dealers to submit separate schedules along with R returns in respect of (a) remittances effected under specific approval of the Reserve Bank of India and (b) remittances effected under the authority delegated to them. The proposed amendment in regard to the statements of passages will be on the same lines.

5.28 At present, exchange is released by the Regional Offices to the Indian staff members of foreign-controlled companies, deputed to their parent

Training in Non-technical Fields

companies abroad
for training in
non-technical fields,

such as "Management", "Sales Promotion", "Marketing", etc., provided they are likely to get some benefits by the training for the purpose of occupying important positions in due course. Applications from Indian companies (which are not foreign-controlled) for permission to send their staff for training with their collaborators in non-technical fields are considered at Central Office. It has, however, been clarified that no exchange should be released to the Indian business houses for deputing their Executives for attending the Management Development Courses abroad.

5.29 Provision for exchange facilities for training of the Indian staff of foreign-controlled companies in non-technical fields was made at a time when there were no organised facilities for such studies in the country and important positions

in such organisations were usually held by foreigners. In terms of the new provisions of the Foreign Exchange Regulation Act, 1973, companies having non-resident interest of more than 40 per cent will be deemed to be foreign-controlled. Under the current policy, 250 to 300 companies with non-resident participation beyond 40 per cent are likely to operate in India for an indefinite period. It may not be desirable to extend exchange facilities to the Indian staff of such companies alone, while denying the facilities to their counterparts in Indian companies. No doubt, an argument may be adduced in favour of the staff of Indian branches of foreign companies or hundred per cent subsidiaries of foreign companies, stating that exchange released for the training of their personnel will ultimately reduce their remittances on account of profits/dividends. But this argument will not have much force since no exchange (excepting a small amount of £.75/-) is allowed for the training of Indian Officers of foreign banks and only 'P' Form is allowed in such cases if the concerned trainee-officers are paid reasonable stipend in foreign exchange by the

Head Office of the concerned bank without making any adjustments with the sponsoring Indian branches.

5.30 Having regard to these anomalies and the availability of adequate facilities for studies/training in non-technical fields within the country, the Study Team feels that the Bank should not grant exchange to the Indian staff of foreign-controlled companies to go abroad for such training programmes. They may, however, be granted 'P' Form facilities subject to the same conditions as are prescribed in the case of Indian officers of foreign banks.

5.31 In certain cases, persons resident in India are allowed to retain their foreign currency accounts

Repatriation of interest/
dividend accrued on
foreign currency accounts

subject, inter
alia, to the
condition that

dividend/interest on their foreign currency shares/securities/balances should be promptly repatriated to India. Where, however, the aggregate amount so credited does not exceed £.50/- in a year, it may be repatriated to India once in a year. The facility to repatriate such small amounts once in a year is given to the concerned parties to avoid inconvenience and

expenditure by way of bank charges etc.

5.32 The limit of £.50/- was fixed some time in 1964 and there has been a general increase in the rates of dividend or interest since then. The bank charges have also gone up. The Study Team recommends that for the convenience of the account-holders, this limit may be raised to £.100/- or its equivalent per year.

5.33 Under the current policy, non-residents of Indian nationality or origin are permitted to invest

Investments by non-residents of Indian nationality or origin

their funds in
India in public/
private limited

companies and/or in partnership/proprietorship concerns, provided the investor concerned gives an undertaking that neither the capital nor the dividends/profits accruing thereon will be repatriated from India.

5.34 As the undertaking binds only the investor and not his successor/s, it is possible that on the death of the original investor, his legal heirs may apply for repatriation of such amounts on the plea that the undertaking given to the Bank has remained

abrogated on the death of the investor. In fact, Bombay Office received one such case and allowed remittances, treating the funds invested in India as a legacy. In order to avoid such contingencies in future, it is suggested that the undertaking regarding non-repatriation of capital and income to be obtained from the non-resident investor should be worded in such a way as to bind his successors also. For the purpose, a suitable form of undertaking may be devised in consultation with Legal Department.

5.35 Applications received from industrial concerns in India for obtaining foreign currency loans from ICICI, IFC, etc. are approved by the Regional Offices.

Issue of Guarantees
against ICICI Loans

In terms of the
loan agreement
between the

borrowing company and the ICICI/IFC, the former is required to furnish a bank guarantee to the latter in respect of repayment of loan and payment of interest. Such cases are dealt with at two stages - once when the application is received from the borrower for approval of Heads of Agreement and again when the application is received from his bankers for approval

regarding the issue of a guarantee. The Study Team recommends that while approving the Heads of Agreement, it may also be indicated that the concerned authorised dealer(after ascertaining his name and address) may execute the requisite guarantee, citing a reference to the Reserve Bank's letter.

5.36 The Department receives passports for making necessary endorsements regarding approval of 'P' Form,

Record of Pass-
Ports received/
delivered

FTS Declaration or
'J' Form and for other
purposes. In the

Bombay Office, 100 passports are received, on an average, in a day. At present, there is no system of keeping any record of passports received and delivered. No receipt is given to the applicant for having accepted his passport. Passports which are retained overnight are kept in the boxes by different Sections without any balancing.

5.37 The procedure followed in regard to the safe custody of passports is unsatisfactory. If any complaint is received from an applicant that the passport submitted to the Department has been misplaced, the Department has no means to verify

the position. In some cases where such complaints were received and passports could not be traced inspite of thorough search, letters were addressed to the Passport authorities to the effect that the passport submitted by the concerned applicant had been misplaced in the Office and that the Bank had no objection to the Passport authorities issuing a duplicate passport.

5.38 The Study Team feels that passports should be received against issue of token/receipt and delivered against surrender of the particular token/receipt. In order to have a proper check on receipt and delivery of passports, a daily balancing system may be introduced. As at the close of the day, Staff Officers of the concerned Sections may make necessary entries regarding receipts, deliveries and the closing balance of the passports in the balance book before keeping them in the almirah overnight. Although this procedure may cause an extra work, it will save the Department from embarrassing position on account of loss or misplacement of passports.

5.39 The Department insists on submission of 'No Objection' certificates from the Income-tax authorities

in connection with certain applications (e.g.

'No Objection'
Certificates
from Income-tax
Authorities

remittance of
surplus passage/
freight collections,
transfer of shares,

etc.). Although income-tax clearance certificates are issued by the Income-tax authorities on security paper in standard forms, there is no uniformity in regard to the procedure for issue of 'No Objection' certificates. Apart from the arithmetical irregularities in certain cases, it has been observed that different Income-tax offices use different forms (all on ordinary paper) for the purpose of issue of such 'No Objection' certificates. Since it is risky to act upon such certificates, it is suggested that the Central Board of Direct Taxes may be requested to instruct all Income-tax authorities to issue 'No Objection' certificates also on security paper in a standard form.

5.40 The Department has prescribed specimens of forms in which applications are required to be made for various purposes. Instructions are given on these forms as to the manner in which the

applications have to be completed and what supporting

Comprehensive Memoranda
for calling for additional
particulars/documents/
clarifications

documents are
 required to be
 submitted.

Inspite of

these instructions, oftentimes it becomes necessary for the Department to call for some additional information/documents or secure clarifications. Some Sections of the Department have devised comprehensive cyclostyled memoranda for this purpose. The Sections where such comprehensive memoranda covering all possible objections have not so far been devised may also introduce this system. The Sections should, as far as possible, communicate the requirements by putting tick marks against the appropriate columns. Each form should have some blank space so that points which are not covered by the standardised items may be written by the copying pencil or ball-point pen by the dealing clerk. This practice will reduce the typing work and will also facilitate quicker disposal of applications.

5.41 We recommend that —

- (1) Value-limits fixed for the Officers for disposal of remittance applications may be enhanced;
- (2) Value-limits may be removed in respect of Exchange Control Officers for certain specified purposes;
- (3) Specimen signatures of Staff Officers who are empowered to approve the remittances and sign the exchange permits may be circulated to authorised dealers;
- (4) The system of countersignature of permits may be discontinued;
- (5) The issue of exchange permits on security paper may be dispensed with for release of exchange upto £.15/- or its equivalent;
- (6) Verification of signatures on bank certificates may be done in the Exchange Control Department itself;
- (7) A comprehensive review of scales of exchange in respect of all categories of travellers may be undertaken periodically;
- (8) Scales of exchange and the various monetary limits may be expressed uniformly in Indian Rupees;

- (9) Existing provision for payment of buying commission on imports may be withdrawn;
- (10) Licences to airline/shipping companies and travel agents may be issued for a period of three years at a time;
- (11) Specimen signatures of Staff Officers who are authorised to sign 'P' Forms may be circulated to all airline/shipping companies and travel agents;
- (12) Exchange permits (other than Blanket Exchange Permits) may be issued in duplicate, the first copy being marked "For Drawing Exchange" and the second "For Booking Passage";
- (13) Exchange facilities to the Indian staff of foreign-controlled companies for training in non-technical fields may be withdrawn; and
- (14) Limit for repatriation of dividend/interest on foreign currency shares/securities/balances may be raised to £.100/- or its equivalent.

CHAPTER VIDELEGATION OF POWERS

6.1 The Reserve Bank has found it necessary to delegate certain powers to authorised dealers,

Introduction

authorised

money-changers,

airline/shipping companies, Life Insurance Corporation of India, etc. under the Foreign Exchange Regulation Act to avoid inconvenience to the public in having to make individual applications to the Reserve Bank. Simultaneously, wide powers have been given to the Regional Offices to deal with applications, which are not covered by the powers delegated to these agencies. While delegating the authority, appropriate reporting systems have been evolved in order to ensure that the powers granted are not abused. The Study Team has examined in a limited way certain aspects with a view to identifying the areas where further powers can be delegated or the limits for approvals, where fixed, can be raised. Before formulating its views, the Study Team has taken into account the number of applications received, the type of scrutiny made at the level of approving authority, the possible risks

involved and the safeguards required. The areas where powers can be delegated to airline/shipping companies, authorised dealers and the Regional Offices are discussed below.

6.2 (i) In Chapter III of the Report, the Study Team has analysed the working of the 'P' Form Control and has finally recommended that

Airline/Shipping
Companies -
- Passages under
FTS

this restrictive
provision in
regard to
travel without

exchange may be withdrawn. Since this proposal has wider implications, it may have to be considered at length in consultation with Government. As it would take some time to arrive at the final decision, the Study Team has examined whether the powers regarding booking of passages under the Foreign Travel Scheme, which is an offshoot of the 'P' Form procedure, can be re-delegated to airline/shipping companies and travel agents.

(ii) At the time of introduction of the Foreign Travel Scheme in March 1970, powers were vested in airline/shipping companies and their

agents to book passages under the Scheme. On receipt of a complaint from Air India that some foreign airlines had been indulging in malpractices by booking passages of non-residents against payment of fares in Indian Rupees, the matter was reviewed by Government in a meeting where representatives of the Department of Economic Affairs, Department of Civil Aviation and Air India had participated (the Reserve Bank was not represented). It was decided that the powers given to airline/shipping companies and their agents regarding booking of passages should be withdrawn and that each passenger's eligibility to travel abroad under the Scheme determined by the Reserve Bank on a case-to-case basis. Accordingly, the new procedure for securing specific permission of the Reserve Bank was introduced in May 1972.

(iii) The Scheme is thus being directly administered by the Reserve Bank for the last three and a half years. Since a large number of travellers are eligible for the facilities under the Scheme, there has been a continuous increase in the workload on the Department in this regard (vide paragraph

3.13 Chapter III). Though the powers of airlines and travel agents were withdrawn due to the mal-practices reported to have been indulged in by some carriers, it has to be considered whether such a popular Scheme should continue to be administered directly by the Reserve Bank for an indefinite period. Basically, the procedure is simple in these cases. All that is necessary is to determine, with reference to the passport of any applicant, whether he has undertaken any foreign travel (except to Sri Lanka, Bangladesh, Mauritius, or Nepal) during the preceding three years. Certainly, the precious resources of the Central Banking Institution should not be allowed to be frittered away on a day-to-day basis for such routine items so that due attention may be given to the core problems more profitably. At the same time, it is necessary to ensure that the airline companies or the applicants do not circumvent the regulations. The Study Team has gone into this problem and considers that the work relating to this simple scrutiny of FTS declarations can conveniently be delegated to airline/shipping companies with appropriate safe-guards. The

authority need not, however, be redelegated to travel agents as it may be difficult to exercise effective supervision on their operations.

(iv) The legal implications of this proposal have been examined in consultation with Legal Department. Sub-section (7) of Section 32 of FERA, 1973 requires that no airline/shipping company should book passage for any person for foreign travel unless it ~~has~~ been approved by the Reserve Bank. This requirement may, however, be dispensed with by the Reserve Bank by issuing a general or special Order under Sub-section 11 of the same Section. The Order should indicate the conditions subject to which passages under the Foreign Travel Scheme may be booked by the airline/shipping companies.

(v) Apart from the issue of such an Order from the legal angle, it will be necessary to introduce a few administrative measures to prevent possible abuse of the facility in the event of re-delegation of powers. These measures may be as under :

(a) Where the eligibility of any passenger

for travel abroad under the Foreign Travel Scheme is established, the Department signifies its approval on all copies of the relative declaration filed by the applicant and also endorses his pass-port. In order to avoid double booking, the airline/shipping companies may be directed to endorse the passports of passengers where passages have been booked under the Scheme, although such companies did not previously have any authority to record endorsements on passports. Since passport is an official document issued by the Ministry of External Affairs, their consent may be obtained through the Ministry of Finance before issuing any directions to this effect.

- (b) At present, there is no restriction regarding payment of passage money by or on behalf of any traveller in cash. With a view to reducing the chances for malpractices, instructions may be issued that payment towards passage fare should be received by the concerned airline/shipping companies from the travellers under the Scheme only by means of crossed cheques drawn on their accounts (vide also paragraph 3.29, Chapter III).
- (c) In cases where the renewed or duplicate passport does not bear any certificate of the Passport authorities regarding the last date of re-entry of the traveller into India from abroad and the traveller is unable to produce his previous passport, FTS approval is given on the basis of an affidavit, duly sworn to before a Magistrate, stating the reasons for his inability to produce his expired passport and affirming that he has not been in any place outside India (except countries exempted) during the relevant period of three years. Since there is considerable scope for abuse of the facility in this procedure, it may be discontinued. If the traveller is unable to produce his previous passport and the renewed/duplicate passport does not indicate the last date of re-entry, the traveller concerned

has to wait for three years from the date of issue of renewed/duplicate passport to become eligible for the FTS facility. There will, however, be no restriction on his foreign travel under the usual 'P' Form or permissible exchange facilities.

- (d) In terms of Sub-section (5) of Section 43 of the Foreign Exchange Regulation Act, 1973, the Reserve Bank has been empowered to undertake inspections of the books and accounts of airline/shipping companies and travel agents. While it may not be possible for the Bank to detect through inspection all irregularities that may be indulged in by unscrupulous airlines, surprise inspections will create a psychological impact on the foreign airlines and act as a deterrent against malpractices. Pending introduction of a comprehensive inspection programme, inspections in respect of the bookings made by airlines under the Scheme may be commenced straightway.
- (e) The Regional Offices may be instructed to carry out a post-facto scrutiny by calling for passports of some of the travellers for whom passages have been booked under the Scheme. For this purpose, Offices may select at random 10 per cent of the travellers from the relative monthly statements received from the airline/shipping companies.

6.3 (i) Authorised dealers are empowered to open letters of credit upto £.200/- or its equivalent for

<u>Authorised Dealers</u>	imports by
- <u>Imports by post parcel</u>	post parcel
	of goods

which are normally shipped in this manner (e.g. watch parts), provided the importer is in possession

of a valid import licence or the import is covered by an Open General Licence. Cases where the value of the letters of credit to be established exceeds the limit of £.200 or its equivalent (even though individual drawings under the credit may not exceed that limit) and cases where the goods to be imported are not of a kind normally imported by post parcel are required to be referred to the Reserve Bank [Vide paragraph 10(iv), Section VI of the Exchange Control Manual].

(ii) This restriction was initially imposed in sixties when fraudulent practices of some unscrupulous importers came to the notice of the Department. Although the limit was subsequently relaxed to meet the difficulties of bonafide importers, a number of such applications are received in the Department due to general escalation of costs. The Regional Offices are freely approving such references from authorised dealers. Offices have also powers to grant general permission to the concerned authorised dealers in respect of applications of the Public Sector Undertakings, Universities and other educational

institutions and public limited companies, irrespective of the amounts involved or the nature of goods to be imported.

(iii) During a particular month (September/October 1974), the Bombay Office approved 34 applications and it is understood that the flow of cases continues to be more or less in the same order. Of the cases so received, about 50 per cent were for amounts ranging upto £.500/- or its equivalent. Since these applications are required to be processed with utmost expedition and authorised dealers have also familiarised themselves with the objectives of the particular Regulation during the last decade, it is proposed that the banks may be given general authority to approve all such applications for opening letters of credit or for remittances against bills for collection upto a value limit of £.500/- or its equivalent [vide paragraphs 10(iv) and 14(ii), Section VI ibid]. This delegation will reduce references to the Reserve Bank to a considerable extent.

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6.4 (i) Authorised dealers are required to refer to the Reserve Bank applications for remittances

<p>— <u>Delayed Payments</u> <u>against Imports</u></p>	<p>against 'cash' import licences (i.e. licences</p>
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not issued on deferred payment basis) beyond six months from the date of shipment, except for remittance of the amounts withheld towards guarantee of performance etc. and remittances against import of books [vide paragraph 17(i), Section VI of the Manual].

(ii) The intention behind the restriction is to ensure that no extra exchange is remitted to the overseas suppliers towards interest on account of delayed payment and that the importers do not unnecessarily carry on exchange liability for a longer period. It is observed that in most of the cases, the concerned importer explains the delay by stating that the relative import licence has been misplaced or they have run short of funds. The Regional Offices approve the applications, almost as a matter of routine, subject to the condition that no payment of interest is involved on account of delayed payment. The Bombay Office receives a

good number of applications of this type (276 applications during January to March 1975) and no case is practically rejected. In all these cases, there is generally a delay of six months to one year. It is recommended that powers may be delegated to authorised dealers to allow remittances against imports under 'cash' licences beyond six months from the date of shipment without the prior approval of the Bank, provided the delay is not more than another six months (i.e. one year from the date of shipment) and they are satisfied that no extra payment by way of interest or for any other reason is involved directly or indirectly on account of the delayed payment.

6.5 (i) Applications from exporters for remittances on account of commission to their selling agents abroad are required to be referred to the

—Commission
on Exports

Reserve Bank,
except in
cases where the

agency arrangements have already been registered with the Reserve Bank (vide paragraph 5, Section IX of the Exchange Control Manual). Such

applications are approved by the Regional Offices upto specified rates, depending on whether the commodity on which commission is payable is classified as 'traditional' or 'non-traditional', whether any after-sales service is involved, whether commodities/goods involve foreign collaboration, payment of royalty, etc. The Regional Offices have powers to allow commission remittances upto 5 per cent on 'traditional' items and upto 10 per cent on 'non-traditional' items.

(ii) During the year 1974, Bombay Office approved 264 applications for remittance of commission — 165 applications in respect of 'traditional' exports and 95 applications in respect of 'non-traditional' exports. In 234 cases, the rate of remittances varied between 2 to 5 per cent.

(iii) At present, all the three copies of GR/EP Forms (duly supported by the relevant documents) are submitted to the Customs authorities at the time of shipment for necessary scrutiny. The Customs authorities verify, inter alia, the rate of commission as may be declared on the export forms. In case the commission payable to overseas agents is not declared

on the forms and accepted by the Customs, it is not normally allowed to be remitted. In view of the scrutiny made by the Customs authorities at the pre-shipment stage, it is felt that powers for remittance of commission in individual cases may be delegated to authorised dealers within certain limits.

(iv) It is suggested that authorised dealers may be given authority to approve such remittances, without prior reference to the Reserve Bank, subject to the following broad conditions :

- (a) The rate of commission has been declared on the relative GR/EP Form and accepted by the Customs authorities;
- (b) The rates at which remittances are desired to be made should not exceed 2 per cent in the case of 'traditional' and 5 per cent in the case of 'non-traditional' commodities. (For this purpose, an upto-date list of 'traditional' and 'non-traditional' goods may be circulated to authorised dealers); and
- (c) The proceeds in respect of the particular shipment have been/will be received in full in free foreign exchange through the concerned authorised dealer.

(v) Since it is necessary to process all such applications with utmost expedition in the interest of export promotion, the proposed delegation will help clearance of many such remittances by

authorised dealers directly and will, at the same time, afford considerable relief to the Department.

6.6 (i) Remittances not exceeding £.15/- or its equivalent may be effected by authorised dealers on

<p>— <u>Patent and Trade</u> <u>Mark Registration</u></p>	<p>behalf of Indian owners of patents,</p>
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designs, trade marks, etc. to the concerned authorities in foreign countries for the purpose of fresh registration or renewal of earlier registration (vide paragraph 12, Section IX of the Manual). The Regional Offices have powers to approve the remittances of this nature, irrespective of amounts.

(ii) During the period July to December 1974, Bombay Office approved 57 applications for remittances towards registration or renewal of patents, trade marks, etc. in excess of £.15/- or its equivalent. Of these, 22 cases were for amounts ranging upto £.50/-. Since the registration of trade marks is intended for popularising the Indian brands abroad, such applications may be approved liberally. It is, therefore, recommended that this limit for authorised dealers may be raised to £.50/- or its equivalent.

6.7 (i) At present, authorised dealers are empowered to allow remittances upto U.S.\$100/- or

<p>— <u>Subscriptions/</u> <u>Membership fees</u></p>	<p>its equivalent on account of <u>individuals</u> in</p>
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any calendar year in payment of subscriptions or membership fees to bonafide clubs, scientific, technical and educational institutions (other than religious or mystic organisations or the Rotary/Lions International). They are also authorised to allow remittances upto £100/- or its equivalent per annum per applicant in respect of payment of subscriptions or membership fees to overseas institutions by firms/companies and other corporate bodies. Applications for amounts in excess of these limits are required to be referred to the Reserve Bank [vide paragraph 17(i), Section IX of Exchange Control Manual read with A.D. Circular No.37 of 1974].

(ii) Since the subscriptions or membership fees are being raised from time to time by the overseas institutions, requests are received in the Department from individuals and various organisations

for enhancement of the limits prescribed for the authorised dealers in this regard. It is observed that during July-December 1974, Bombay Office approved only 6 applications for remittances in excess of U.S.\$100/- in the case of individuals and 37 applications for remittances in excess of £100/- (of which 18 applications for remittances upto £200/-) in the case of firms/companies.

(iii) Apparently, there is a case of upward revision of the limits in the case of corporate bodies, though such a revision in regard to remittances by individuals is not strictly necessary at present. It is, however, likely that some organisations will further raise the rates of subscriptions in view of the general increase in costs. Since in these cases, no discretion is required to be exercised by banks and the beneficiary organisations are usually of good standing, there is no risk in vesting wider powers to authorised dealers in this regard. It is felt that while enhancing the limit for the corporate bodies to £200/- or its equivalent, the limit applicable to individuals may also be raised marginally to U.S.\$125/- or its equivalent.

6.8 (i) At present, applications for casual remittances like gifts on the occasion of Christmas,

birthday

— Gift Remittances

anniversary,

etc. are required to be referred to the Reserve Bank (vide paragraph 2, Section XII *ibid*). Such remittances are approved at the personal discretion of the Deputy/Assistant Controller upto a limit of £.30/- in any one calendar year provided —

- (a) the remittance is made to a close relative of the remitter;
- (b) the beneficiary has not gone abroad for a short period for business, medical treatment, etc;
- (c) the beneficiary is not in receipt of remittances from India (excepting students);
- (d) the purpose stated by the applicant is reasonable; and
- (e) the remitter certifies on the prescribed application form the total casual remittances made by him during the calendar year and the total amount so remitted is within the above limit.

(ii) During the period January-July 1975, Bombay Office approved 142 such applications, of which 101 applications were for amounts ranging upto £.25/-. In view of the smallness of individual

remittances, it is recommended that authorised dealers may be given powers to allow such remittances upto £.20/- or its equivalent per applicant per year subject to the conditions listed in the preceding paragraph, with the only modification that the category of close relatives for the purpose of these remittances should be confined to parents, sons, daughters, brothers or sisters of the remitters. In all other cases, applications should continue to be referred to the Reserve Bank as before.

6.9 In terms of paragraph 12(ii)(b), Section XII of the Exchange Control Manual, authorised dealers

- Refunds of
Income-tax

are empowered
to remit
amounts, not

exceeding Rs.1,000/-, towards refund of income-tax in respect of non-resident individuals who are eligible to receive current income from India. On a rough survey of the cases approved by the Bombay Office, it is observed that quite a number of applications for remittances upto Rs.2,500/- have been approved on this account. Although applications for still higher amounts have been dealt

with by the Department, it is felt that references to the Reserve Bank will be much reduced if the present limit is raised from Rs.1,000/- to Rs.2,500/-.

6.10 (i) Authorised dealers may allow foreign nationals to make recurring remittances to their

<p>— <u>Recurring remittances</u> <u>by foreign nationals</u></p>	<p>respective countries for family main-</p>
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tenance etc. upto 50 per cent of their net income, subject to a maximum of Rs.2,360/- per month after their eligibility for this facility has been determined by the Reserve Bank (vide paragraph 2, Section XIII of the Exchange Control Manual). Requests for remittances in excess of this limit are required to be referred to the Reserve Bank. The Bombay Office approved, during April 1974 to May 1975, as many as 88 applications. Of these, the scales of remittances in 30 cases ranged between Rs.2,521/- to Rs.3,500/- per month even though these amounts were less than 50 per cent of the emoluments of the concerned remitters.

(ii) These limits were last revised in 1966 after devaluation of the Indian Rupee. In view of

the inflationary trends world over, the emoluments of the foreign nationals employed in India have also generally gone up. If the powers of authorised dealers are enlarged in this regard, there will be less references to the Reserve Bank. As engagement of foreign nationals is screened by the Reserve Bank, there is no particular risk in increasing the limits in this regard. It is recommended that authorised dealers may be permitted to allow recurring remittances in such cases upto 50 per cent of the net income of the concerned foreign nationals subject to a maximum of Rs.3,500/- per month provided other prescribed conditions are fully satisfied.

6.11 In terms of paragraph 14.A.II(b), Section XX of the Exchange Control Manual, authorised dealers

— Credits to Private
Non-resident Accounts

have been
 given
 permission

to credit private non-resident accounts with proceeds of small cheques, provided the aggregate of such credits during a month does not exceed Rs.2,000/- and that no individual credit is in excess of Rs.750/-.

The Department receives a number of applications from

authorised dealers for approval for crediting amounts in excess of these limits. In many cases, the amounts to be credited represent accumulated rent on flats owned by non-resident Indians. When such an application is received for the first time in respect of any particular house or flat, it has, inter alia, to be verified whether permission under Section 31 of the Foreign Exchange Regulation Act, 1973, has been obtained. Once the application for credit of the amount to the concerned non-resident account is given, there is no point in examining such applications again and again so long as the tenancy terms continue to be the same. While approving the first credit in such cases, the concerned authorised dealer may be granted general permission to credit the amounts periodically subject to the condition that fresh approvals should be obtained when there is a change in the terms of tenancy.

6.12 (i) The Regional Offices have been empowered to approve applications from firms and companies for remittances towards the cost of advertisements abroad provided they are for

promotion of exports (visible or invisible) from India,

Regional Offices

— Advertisements abroad
for Export Promotion

the volume and
nature of business
of the applicants
are such as to

justify the foreign exchange expenditure and the banker's report on the concerned firm or company is satisfactory.

[Authorised dealers are empowered to effect remittances of this nature not exceeding £.75/- or its equivalent in any calendar year on behalf of their clients who are established exporters]. The free limit granted to the Regional Offices for releasing exchange for advertisements abroad was restricted from September 1974 to Rs.5,000/-. Applications for amounts in excess of this limit are now referred to Central Office [vide paragraph 88(i) of the Book of Instructions read with C.O.Circular 44 of 1974].

(ii) Central Office received during January-July 1975 as many as 51 applications in this regard. Of these, remittances in 22 cases ranged upto Rs.10,000/-. Since there has been a general increase in the cost of advertisements in foreign newspapers, magazines, etc., and exporters have also launched a

more intensive export promotion drive, it is recommended that the limit may be enhanced to Rs.10,000. This limit will also apply to remittances for broadcasting advertisements for export promotion, excepting those for broadcasting advertisements over Radio Ceylon. Applications for the latter category should, however, continue to be referred to the Bombay Office where the work is centralised.

6.13 (i) The Regional Offices have been delegated powers to approve freely 'P' Forms of invitees for

	inaugural flights,
- <u>Inaugural flights</u>	if the invitee is

a journalist, travel agent or a hotelier catering to the airline concerned. In the case of other invitees, Offices are required to refer the applications to Central Office [vide paragraph 105(xiv) of the Book of Instructions]. Government have advised that invitations for inaugural flights to individuals based on business or commercial contacts may be approved by the Reserve Bank at its discretion.

(ii) It is a common practice among the airlines to invite for inaugural flights top

executives of business firms/companies which are patronising them. It is recommended that powers may be delegated to the Regional Offices to approve 'P' Forms of executives of such companies provided they have been invited for inaugural flights on account of business or commercial contacts. It may also be clarified that if a person is otherwise eligible for travel abroad under the Foreign Travel Scheme or for 'P' Form clearance or has been released exchange, Offices need not go into the question whether the actual journey is performed wholly or partly by an inaugural flight.

6.14 (i) In terms of paragraph 149(i)(a) of the Book of Instructions, Offices have been instructed

<p>to deal with</p> <p><u>—Export promotion visits</u></p>	<p>applications for</p>
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release of exchange for export promotion favourably in the case of firms/companies having good export performance and/or having enquiries from overseas buyers. In cases where the exporter does not have any past exports or is not able to produce any enquiries from foreign importers, etc., Offices may release exchange on the recommendations of the

Ministry of Commerce, Export Promotion Council or a Commodity Board. Even where no such recommendation is produced, Offices may still consider the application if any evidence is produced to show that the proposed foreign tour is likely to result in new/additional exports. Where Offices propose to reject an application for export promotion, they have to refer the case to Central Office with full particulars.

(ii) The policy in regard to release of exchange for travel abroad for export promotion is fairly liberal. There should not, therefore, be any occasion for the Regional Offices to reject the application for release of exchange for export promotion if there is a prima facie case within the above guidelines. It is not necessary to refer such cases to Central Office where they cannot be approved even under the existing liberal policy. Offices may be advised that they may straightway reject the applications, without reference to Central Office, where they are satisfied that there are no sufficient grounds for

release of exchange in any particular case.

6.15 (i) At present, Regional Offices are empowered

- Entertainment Allowance

to release

exchange

towards entertainment allowance only to the travelling
salesmen at the following rates, subject to accounting :

- (1) £.30 or its equivalent per trip for
a period of stay abroad upto 30 days;
- (2) £.1 or its equivalent per day for
approved stay in excess of 30 days
for which exchange is released for the
tour.

Applications for release of exchange for entertainment
purposes for businessmen other than travelling salesmen
are required to be referred to Central Office [vide
paragraph 151(ii) of the Book of Instructions].

(ii) It is an anomalous situation that Regional
Offices are empowered to release exchange even to top
businessmen for their business visits abroad, but
their applications for entertainment allowance
are required to be referred to Central Office. The
Study Team recommends that the Regional Offices may
be authorised to release exchange for entertainment
allowance to top executives of companies (Chairman,
Managing Director or Director) going abroad for

discussions relating to collaboration or for discussions on large export deals (including construction tenders) or for other important negotiations upto £.100/- or its equivalent, depending upon the period of stay approved, subject to submission of a broad account of the amount spent in this regard. This will be in line with the recommendation recently made by the Group appointed for examining the problems relating to travel abroad on export promotion grounds.

6.16 (i) The Exchange Control Department issues Blanket Permits to exporters with a large volume of

-Blanket Exchange
Permits

exports to
their credit.

The holders

of such permits can draw exchange from authorised dealers for travel abroad for export promotion and other approved purposes without obtaining prior approval of the Reserve Bank each time. At present, exporters who are registered as "Export Houses" with the Ministry of Commerce, Government of India, and those whose exports in the previous year amounted to not less than Rs.75 lakhs in the case of 'traditional'

goods and Rs.15 lakhs in the case of 'non-traditional' goods are eligible to obtain Blanket Exchange Permits from the Reserve Bank. (In the case of consultancy organisations/firms of consultancy/design engineers the limit has been fixed at Rs.5 lakhs). All applications for issue of Blanket Permits, fresh or supplementary, are required to be referred to Central Office [vide paragraph 161(i)(a) of the Book of Instructions].

The Study Team has examined the working of this procedure. It is observed that generally there is delay in issuing Blanket Permits. On account of the delay in issuing such permits, the exporting firms/companies are perforce to apply, on an ad hoc basis, to the Regional Offices for release of exchange for travel of their representatives on export promotion grounds. In the process, the work-load in the Regional Offices increases and the purpose for which the Blanket Exchange Permit Scheme has been devised is lost.

(ii) The Department has not so far attempted to delegate powers in respect of the issue of Blanket Permits to Regional Offices mainly because of certain practical difficulties in standardising the quota of exchange for the purpose. It is quite common that

different applicants have been released exchange for different amounts even though their export performance is more or less identical. Such differences happen as the amount is determined in each case, depending on some variable factors. In any case, it has become absolutely necessary to delegate the powers to the Regional Offices within some broad guidelines in the interest of quicker service to large exporters and to reduce avoidable work-load of the Regional Offices.

(iii) The Group appointed by Government recently for examining the problems relating to travel abroad for export promotion have suggested, inter alia, lowering of the minimum export turnover for eligibility for Blanket Permits and delegation of powers to the Regional Offices to issue Blanket Permits. Since the Department has already prepared a framework for implementation of the recommendations of the Group, the Study Team is not making any specific suggestions in this regard.

6.17 (i) Persons proceeding abroad for medical treatment are required to first obtain a recommendation in the prescribed form from the Chief Administrative Medical Officer of the State

concerned on the basis of the report of the treating

physician/surgeon.

-Exchange for
Medical Treatment

The Regional Offices

have been empowered

to release exchange for medical treatment abroad

initially upto the amount recommended by the medical

authorities, but not exceeding U.S.\$3,125/- for

U.S.A. and Canada and £.750/- for all other countries

[vide paragraph 189(iii) of the Book of Instructions].

Exchange permits for medical treatment are issued with

a condition that a detailed account of the disbursements

made out of the exchange released should be submitted

to the Bank, duly supported by receipted hospital/

medical/hotel bills. Additional exchange is released

only on submission of an account in respect of a

substantial part of the exchange initially released

supported by receipted hospital and medical bills

and a certificate from the attending doctors abroad

stating the estimated duration and cost of further

treatment.

(ii) There are cases where the treating physician/surgeon recommends an operation and the overseas hospital insists on advance payment of an amount. In these cases, the requisite amount mostly exceeds

the limits indicated in the preceding paragraph. Since no discretion is required to be exercised in these cases and such cases should be disposed of with utmost expedition, it is recommended that the Regional Offices may be empowered to release exchange towards advance payment to overseas hospitals in respect of persons proceeding abroad for operation, irrespective of the amounts involved, subject to the usual conditions.

6.18 (i) Regional Offices have powers to release exchange to the extent of Cey.Rs.300/- per person per

<p>— <u>Group visits to</u> <u>Sri Lanka</u></p>	<p>annum to Indian nationals wish- ing to visit</p>
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Sri Lanka for private reasons (e.g. visiting close relatives, attending marriages of sons/daughters and other close relatives, collecting rents on properties owned, pilgrimage, etc.). Applications for group visits are, however, required to be referred to Central Office [vide paragraph 196(i) of the Book of Instructions].

(ii) In Bombay, several schools/colleges conduct educational tours of students to Sri Lanka

during vacations and such visits are approved at Central Office level. As no special scrutiny is done in Central Office in such cases, it is recommended that the Regional Offices may be given powers to approve such group visits to Sri Lanka subject to the condition that persons included in the group are otherwise individually eligible for release of exchange for private visits to Sri Lanka.

6.19 (i) In terms of Section 7 of the Foreign Exchange Regulation Act, 1973, the Reserve Bank issues

<p>— <u>Licences to</u> <u>Money-changers</u></p>	<p>licences to persons/firms to deal in</p>
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foreign currencies subject to certain conditions. At present, money-changers' licences are issued to shops and emporia (except shops/emporia owned by Central or State Governments) subject to an annual minimum turnover of U.S.\$10,000/- or its equivalent if the place of business is in Bombay, Calcutta, Delhi/New Delhi and Madras and U.S.\$5,000/- or its equivalent if the place of business is at any other place in India (the limit is U.S.\$10,000/- or its equivalent for Registered exporters of gems and

jewellery irrespective of the place of their business). In the case of hotels and Government shops and emporia, no such minimum limit of business turnover has been prescribed.

(ii) In terms of paragraph 218(i)(a) of the Book of Instructions, Regional Offices are required to refer applications received from shops, handicrafts emporia and similar other establishments for issue of money-changers' licences to Central Office. Such applications should be accompanied by an undertaking from the applicants that they will endeavour to secure the prescribed minimum foreign exchange collection and a confidential report from the applicant's bankers regarding their means and standing. Since definite turnover limits have been prescribed in these cases and no special scrutiny is done in Central Office, it is recommended that powers may be delegated to the Regional Offices to issue money-changers' licences to the applicants of these categories without reference to Central Office. In the case of hotels, Regional Offices have already been given powers to issue licences on production of specific recommendation from the Department of Tourism.

(iii) While reviewing the policy in 1969 in regard to issue of money-changers' licences with a view to reducing the number of money-changers, it was, inter alia, decided in consultation with Government that the licences should be issued for a period of one year only. Since then, licences are being issued/renewed for a period of one year at a time, although the policy in this regard has been liberalised. The renewal of licences mainly depends upon the annual turnover of the licence-holders. Most of the licences have been granted to hotels, for which no minimum turnover is prescribed. Out of 494 money-changers, 111 are operating within the jurisdiction of the Bombay Office and the rest in other areas. Offices also continue to receive fresh applications from private shops/emporia. The renewal of licences in so many cases after every twelve months causes considerable strain to the Regional Offices. The question of granting licences for any longer period has, therefore, been examined by the Study Team. It is possible to exercise necessary control on the transactions of the money-changers through intensive inspection and careful scrutiny of the statements periodically submitted by them.

If malpractices indulged in by any money-changer come to the notice or any other serious irregularities are committed, a special inspection of the particular licensee may be undertaken at any time, in exercise of the powers conferred on the Bank and if necessary, the licence may be revoked after giving proper notice. The Study Team, therefore, recommends that the money-changers' licences may be issued/renewed for a period of three years at a time.

(iv) At times, Regional Offices receive applications for issue of money-changers' licences purely on a temporary basis. Money changing facilities for a short period are generally provided during the stationing of a Cruise near the docks. The Development Corporation of Konkan Ltd., Bombay, usually open a booth near the docks to sell mangoes to foreigners during the mango season. Similarly, shops are opened for participation in fairs/exhibitions conducted in big hotels for short periods. In these cases, decisions have to be taken promptly. It is recommended that the Regional Offices may also be empowered to issue money-changers' licences in these cases purely

on a temporary basis, subject to the usual conditions. This power may, however, be exercised by the Departmental-in-Charge.

6.20 (i) Regional Offices have powers to grant extension of time-limit for realisation of export

<p>— <u>Extension of time</u> <u>limit for realisation</u> <u>of export proceeds</u></p>	<p>proceeds beyond the prescribed period (i.e.</p>
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three months in the case of shipments to Pakistan and Afghanistan and six months in the case of shipments to other countries). Such extensions are granted by Offices for periods not exceeding three months at a time subject to an overall limit of six months.

The first extension is granted by the Exchange Control Officer and the second application is examined personally by the Deputy/Assistant Controller. Applications for extension beyond a period of one year from the date of export are referred to Central Office with specified particulars [vide paragraph 248(i) of the Book of Instructions].

(ii) Since such applications have to be dealt with expeditiously, it is recommended that the Regional Offices may be empowered to grant extensions even after

the expiry of one year from the date of export subject to the condition that no extension should be allowed for more than three months at a time. Powers may be exercised by the Officers on the following basis :

<u>Designation of Officers</u>	<u>Limits for granting extension of time-limit</u>
(a) Assistant Exchange Control Officers and Staff Officers	First extension
(b) Exchange Control Officers	Second extension
(c) Assistant Controllers*	Third Extension
(d) Deputy Controllers	All extensions beyond third extension.

* Where the Office is under the charge of an Assistant Controller, all extensions beyond the second extension may be approved by him.

Where Offices notice that any particular exporter is in the habit of making applications for extension of time-limit for realisation of proceeds frequently or where proceeds cannot be realised in time due to imposition of some special restrictions by the Governmental authorities in the concerned countries, reports should be sent to Central Office with full particulars after one year from the date of export.

6.21 (i) In terms of paragraph 254(i) of the Book of Instructions, Offices have been empowered to approve

applications from

— GR Waivers

Indian nationals

for waiver of GR/EP/PP Form formalities for despatch of gift articles to their relatives and friends upto the value of Rs.1,000/- in any one year. Where the value exceeds this limit, Offices are required to make a reference to Central Office.

(ii) This limit seems to be inadequate in the context of the present-day costs and Offices have been making frequent references to Central Office. During the first six months of 1975, the Regional Offices (other than Bombay) referred to Central Office as many as 46 applications, of which 36 were for values ranging from Rs.1,000/- to Rs.5,000/-. It is, therefore, recommended that the present limit for waiver of GR/EP/PP Form procedure may be raised to Rs.5,000/- with the stipulation that cases involving despatch of articles of value in excess of Rs.1,500/- should be approved personally by the Departmental Heads.

6.22 (i) Travellers who intend taking out of India articles of jewellery in excess of the limits covered

by the general permission granted by the Reserve Bank

- Travellers' jewellery are required to
obtain a special

licence from the Bank. Regional Offices have been empowered to allow personal jewellery upto the value of Rs.10,000/- in the case of Indian nationals emigrating from India or proceeding abroad on a long-term basis or when they proceed out of the country for business, medical treatment, etc.

[vide paragraph 262(i) of the Book of Instructions].

(ii) During the period January to August 1975, 85 applications were approved by the Bombay Office for taking out jewellery in excess of Rs.10,000/-. Of these, 63 were for values between Rs.10,000/- and Rs.15,000/-. The price of gold has gone up sharply in the recent years. In most of these cases, the value of jewellery desired to be taken out exceeds the prescribed limit only on this account. It is recommended that the Regional Offices may be given powers to grant licences for taking out jewellery upto the value of Rs.15,000/- without the prior approval of Central Office.

6.23 We recommend that —

- (1) Powers may be re-delegated to airline/shipping companies to book passages under the Foreign Travel Scheme;
- (2) The limits fixed for remittances by authorised dealers in specified areas may be enhanced;
- (3) Powers may be delegated to authorised dealers to effect remittances against 'cash' import licences beyond six months from the date of shipment;
- (4) Powers may be delegated to authorised dealers to effect remittance of commission on exports upto 2 per cent on 'traditional' items and 5 per cent on 'non-traditional' items;
- (5) Authorised dealers may be granted powers to allow gift remittances upto £.20/- or its equivalent;
- (6) The limits laid down for approval of remittances by Regional Offices may be raised in specified areas;
- (7) Powers may be delegated to Regional Offices to approve 'P' Forms of individuals who have been invited for inaugural flights on the basis of bonafide business or commercial contacts;
- (8) Offices may be given right to reject applications for release of exchange for travel abroad for export promotion where sufficient grounds have not been made out by the applicants;

- (9) Regional Offices may be empowered to release exchange to top executives of companies upto £.100/- or its equivalent towards entertainment allowance.
- (10) Powers may be delegated to Regional Offices to approve group visits to Sri Lanka;
- (11) Further powers may be delegated to Regional Offices in the matter of issue of money-changers' licences; and
- (12) Powers may be delegated to Regional Offices to approve extension of time-limit for realisation of export proceeds even after a period of one year from the date of export.

CHAPTER VIIRETURNS AND STATEMENTS

7.1 The Exchange Control Department receives a very large number of statements and returns from authorised

dealers, shipping/

Introduction

airline companies,

travel agents, money-changers and other sundry agencies at different intervals. The Department is required to scrutinise all these returns and statements, code the relevant data relating to exports (from GR etc. Forms), purchases/sales of exchange and other supplementary information (reported by authorised dealers through R returns and various miscellaneous statements), record different sets of figures in the prescribed registers and also compile purpose-wise statements for submission to different authorities. The number of returns and statements (excluding those of an ad hoc nature) of varying periodicity, received and compiled by the Bombay Regional Office and Central Office, is

broadly indicated below :

<u>STATEMENTS RECEIVED</u>		<u>STATEMENTS SENT</u>	
<u>From</u>	<u>No.</u>	<u>To</u>	<u>No.</u>
<u>I BOMBAY OFFICE</u>			
(1) Authorised dealers	32	(1) Central Office	67
(2) Airline/Shipping Companies	10	(2) Economic Department	16
(3) Insurance Organisations	5	(3) Government	10
(4) Miscellaneous	19	(4) Miscellaneous	4
	----		----
Total	66	Total	97
	=====		=====
<u>II CENTRAL OFFICE</u>			
(1) Regional Offices	67	(1) Government	31
(2) Authorised dealers	4	(2) Economic Dept./ Dept. of Statistics/ Dept. of Banking Operations & Development	10
(3) Miscellaneous	6	(3) Miscellaneous	1
	----		----
Total	77	Total	42
	=====		=====

As the statements/returns relating to authorised dealers are received from each branch separately, the total volume of statistical work devolving on the Department is stupendous.

7.2 Like any other Control Organisation, the Department should necessarily keep up-to-date data and analyse them in order to oversee the work performed by the various authorised agencies, to review the existing policies and procedures and to reorient the system, wherever necessary. The returns and statements are the most effective media for securing the requisite information. The optimum use of such statements and returns can, however, be made only if the data are collected and tabulated at regular intervals without any loss of time at any level.

7.3 It has been a painful experience of the Study Team to see that the prescribed statements and returns

Arrears in
Statistical
Work

are mostly (excepting
in the case of R
returns) received

after a considerable time-lag and that still more time is allowed to pass before they are processed. In effect, the objective position prevailing at a particular time is not properly reflected through the summarised data. The Local Statistical Section carries the maximum burden of the statistical work in the Bombay Office and the position of arrears in

major areas as at the end of July 1975 is indicated as under :

<u>Items of work</u>	<u>Arrears</u>
(A) <u>Preliminary Audit Cell</u>	
(1) No. of forms awaiting scrutiny	22,000
(2) No. of forms scrutinised, but pending for rectification of discrepancies by authorised dealers	20,000
(B) <u>Local Statistical Section</u>	
(3) Compilation of 10-day Import/Export Data	November 1974 onwards.
(4) Statement showing country-wise figures of imports/exports from/to Bilateral Account countries	September 1974 onwards.
(5) Forms to be coded	4,225
(6) Forms coded, but not checked	7,422
(7) Noting of details of remittances for compilation of statements	February 1975 onwards.
(8) Detailed Audit of R returns	January 1975 onwards.
(9) Compilation of statements relating to :	
(a) Non-resident (External) Accounts	January 1975 onwards.
(b) Earnings from Tourism	October 1974 onwards.

The reasons for the arrears may briefly be attributed to the flow of a large number of returns/statements, absence of proper control on the various stages of processing, inadequacy of staff, shortage of space and the recently introduced crash audit system.

7.4 Apart from the arrears, it has been observed that in many cases, the flow of information collected

Other Shortcomings

through the
statistical

returns does not move up at all. Even the instructions are lacking in some areas as to how exactly the returns are to be dealt with. Certain types of data have, over years, lost their significance or some figures are not required as frequently as they are furnished. There has been a tendency to prescribe more and more returns without verifying as to whether all the current statements are properly utilised or whether they have become outmoded or whether they can be rationalised in any manner. The cumulative effect of such a course of action has been very severe on the organisation. Under the existing information system, the staff are flooded with incomprehensible data from different sources. The entire statistical work has generally become dull and meaningless to the staff and does not also get the due

attention of the Management. The time has perhaps come when the Control has to be protected from the mass of details which are collected for the purpose of securing information but do not inform or from the details on which no action is taken. There seems to be an avoidable waste of time, efforts and money in this field.

7.5 At the same time, the importance of the statistical work can hardly be emphasised. It has not been possible

Limited Study
of Returns

for this Study Team
to diagonalise all
the causes for the

present maladies or to offer definite suggestions as to how to overcome the position. Attempts have, however, been made to examine the utility of a few returns/statements received from authorised dealers or compiled by the Regional Offices/Central Office of the Department. It has also been examined whether the periodicity of some of the statements/returns may be re-scheduled without affecting their importance or some statements/returns discontinued altogether.

7.6 Authorised dealers supply their basic data regarding sales and purchases of foreign exchange and the net

R Returns

foreign exchange
position through

R returns. These are the most important returns and are presently received on a tri-monthly basis, as under :

- (1) R.1 - Transactions in Sterling
- (2) R.2 - Transactions in U.S.Dollars
- (3) R.3 - Transactions in Sterling Area
currencies other than Pound Sterling
- (4) R.4 - Transactions in non-Sterling Area
currencies other than U.S.Dollar
- (5) R.5 - Transactions through the rupee
non-resident accounts of overseas
banks/correspondents.

7.7 With the cessation of India's membership of the Sterling Area, the scheme of the above returns has become due for a change. Strictly, two returns - one for the existing R1 to R4 and another for the rupee transactions (R5) - would suffice. As, however, the volume of transactions in Pound Sterling and U.S. Dollars is still very large and integration of transactions in these two leading currencies in a single form would create bottlenecks in the actual operations in the Department, R1 and R2 returns should remain undisturbed, at least for some more time. But

there is absolutely no necessity for separate existence of R3 and R4 returns. In fact, many authorised dealers have discontinued, on their own, R3 returns and report the relative transactions through R4 returns. The Economic Department has no objection to the integration of R3 and R4 returns so long as currency-wise totals are available from the integrated R4 returns. The proforma of the latter return is already having this provision. Formal decision may, therefore, be taken to discontinue R3 returns. Since there will be only four basic returns, the existing R4 return may be designated as R3 and R5 as R4 as soon as R3 return is officially discontinued. As the special Exchange Control forms used for booking the transactions with non-Sterling Area countries through London (e.g. Forms A6, S.A.1) have been cancelled, the proformae for R1, R2 and R4 returns should also be suitably modified on the lines indicated by the Economic Department.

7.8 The volume of work generated by the R returns is considerable. At present, there are about 3,400 branches of authorised dealers throughout India, of which nearly 450 branches are operating in the Bombay area. Each branch should normally submit four (excluding R3)

returns with two supplementary statements (one for export documents with the relative schedules and the other for the inward remittances for Rs.10,000/- and above) for every ten-day period. As, however, all branches are not always required to undertake transactions of all types, the number of R returns received on an all-India basis comes to about 25,000 in a month. Each return is again accompanied by a number of remittance forms and other documents and the Bombay Office alone receives about 20,000 forms per month. The sorting of these returns/forms, coding of the relevant data, scrutiny of remittance forms, recording of the selected data and compilation of purpose-wise statements require sufficient time and labour. With a view to reducing the work-load, without affecting the flow of the basic information, the Study Team has examined as to whether these returns may be obtained from authorised dealers on a bi-monthly (instead of tri-monthly) basis. Since the import-export data are picked up from these returns and communicated to the Ministry of Finance (Department of Economic Affairs) on a tri-monthly basis according to the existing time-schedule of the returns, a reference was made by the Team to Government enquiring whether they would have any objection if

the relevant data were furnished on a fortnightly basis. The Government have confirmed that they have no objection to the proposed re-scheduling of the flow of data.

7.9 The proposal for changing the periodicity of R returns was also referred by the Study Team to the Economic Department (Division of International Finance) as the data derived out of these returns form the basis of the Balance of Payments statistics. The Economic Department has not raised any objection from the technical angle, though it has not supported the idea due to the following reasons :

- (1) The time-schedule for these returns was changed from weekly to tri-monthly only a few years back;
- (2) The supporting documents /GR/PP Forms, remittance forms (A/A7) will continue to be the same - in fact, the fortnightly returns will contain more such supporting documents - and involve totalling of a larger number of items on the part of authorised dealers;
- (3) It will not reduce the work of coding since all the transactions will necessarily have to be coded;
- (4) Totalling of a larger number of items by authorised dealers and coding of transactions in the Exchange Control Department on the basis of fortnightly returns will provide greater chances for the errors to creep in than when the returns are prepared on a tri-monthly basis;
- (5) With a larger number of documents to be handled with each return, the submission of the returns by authorised dealers may be delayed; and
- (6) There may also be delay in preparation of code sheets.

The arguments adduced by the Economic Department are, by and large, motivated by administrative considerations. With regard to the first point, it may be stated that the returns were initially obtained on a daily-cum-weekly basis till March 1960 and the frequency was then changed to the present tri-monthly pattern. There is no reason why the time-schedule cannot be changed now after about sixteen years if this change is otherwise advantageous. The other points relate to the handling of supporting documents, totalling of figures by authorised dealers and coding of data in the Exchange Control Department. Though the volume of documents to be handled and the coding of data from such documents will remain the same, there will be substantial reduction of work (by about 33.3 per cent over a month) in other items of work as indicated below :

- (1) The Regional Offices will be required to watch the receipt of less number of returns (approximately 24,000 in place of 36,000 over a month) and as such, the reminder exercise in this regard will be reduced. The connected routine jobs of recording the dates of receipt of these returns, branding them with receipt-stamp and segregating the export documents, remittance forms, etc. will also be reduced proportionately.

- (2) For the purpose of reporting the data relating to foreign exchange expenditure and income through Imports/Non-imports and Exports/Non-exports to Government, as many as 25 figures are required to be picked up directly from each set of R1, R2, R4 and R5 returns for a ten-day period. With the reduction in the number of these returns, the figures to be collected in this regard will decrease proportionately. Since the figures expressed in foreign currencies on R1, R2 and R4 returns are converted in rupees, there will be some reduction of work on this account also.
- (3) Even the coding work will come down to a sizable extent. At present, 29 items are coded directly from each set of R1, R2, R4 and R5 returns. The number of items to be coded will obviously be reduced if the returns are received on a bi-monthly basis. The contention of the Economic Department that coding work will not be reduced as a result of change in the frequency of returns is not, therefore, correct.
- (4) About 40 items relating to each set of R1, R2 and R4 returns received from the authorised dealers maintaining foreign currency position are required to be posted in registers by the Central Statistical Section for compilation of Sales/Purchases data. Even this item of work will be reduced considerably.
- (5) The preliminary checking of returns - totals of the various items under the columns 'Sales' and 'Purchases', reconciliation in respect of the Cash Balance and verification of the 'Oversold'/'Overbought' position - will be reduced by one-third consequent on the re-scheduling of the flow of returns. There will also be a saving of labour on account of a few other items relating to the new procedure of audit.

- (6) The argument of the Economic Department that totalling of a larger number of items by authorised dealers in fortnightly returns will provide greater chances of errors is not tenable inasmuch as totalling is now generally done by all banks with the help of adding machines and the increase of a few more figures does not alter the position.
- (7) It is true that both authorised dealers and the Regional Offices of the Exchange Control Department generally take more time for attending to the statistical work. This is a serious deficiency and is reflected in almost all areas. The time-lag may be reduced only by rationalisation of the total volume of statistical work, more output and better supervision. The position will not be particularly aggravated if the R returns are received on a bi-monthly basis. The compilation of returns by authorised dealers and the consequential work in the Department at longer intervals will, on the other hand, provide more cushion at all levels to complete the work, fully and correctly, within the allotted time.
- (8) The size of these returns is rather big. The banks are required to use considerable quantity of paper and do more typing work. The Exchange Control Department also needs more space for storing the returns. There will be an allround economy of labour and costs in the event of re-scheduling the flow of R returns.

The members of the Study Team have informally discussed this point with some officials of authorised dealers and got a distinct impression that the proposed change will be more advantageous. It is, therefore, recommended that R returns may be obtained on a bi-monthly basis.

7.10 With the progressive delegation of powers to authorised dealers, the audit of R returns has

Audit of
R returns

assumed considerable importance. It has also become necessary

to introduce further elements of check in order to verify whether there have been any transactions of a fraudulent nature. With these objectives in view, the audit of R returns is now done in two stages :

- (1) Preliminary audit, and
- (2) Final detailed audit.

7.11 Under the existing scheme, the preliminary audit is conducted by a complement of staff who are administratively delinked from the Exchange Control Department and linked with the Inspector at major Offices and with the Local Manager at smaller Offices. The main purpose of the preliminary audit is to segregate the remittance forms and/or documents having signs of tamperings of amounts or other signs of a suspicious nature. The Cell for the preliminary audit also exercises checks on a few other routine items. It is intended that the work relating to the preliminary audit should be completed normally within a week from the date of receipt of R returns

from authorised dealers. In other words, this phase of scrutiny should be over within a period of 12 days from the date of expiry of the period to which the R returns relate (a cushion of 5 days is allowed for authorised dealers for submission of the returns). In the Bombay Office, the progress in regard to the preliminary scrutiny of R returns has, however, been rather slow. At one stage, returns and forms received over a period of 3 months accumulated in the Preliminary Audit Cell. Even though the number of checking officials has since been increased and the concerned staff have worked overtime for about 11 weeks, it has not been possible to clear up the arrears. The number of forms, received in the Bombay Office and awaiting scrutiny at the preliminary stage, was about 22,000 as at the end of July 1975. As the work relating to coding of forms, compilation of various statements and further follow-up measures is taken only when the relative forms/returns are released by the Preliminary Audit Cell, there has been a resultant accumulation of work at all these subsequent stages. Since compilation of the Balance of Payments statistics depends, inter alia, on the coding of R returns and the relative remittance forms, the delay at the

operating stages in the Exchange Control Department will create serious difficulties in this regard. In addition, one more problem has come up. If the irregularities detected at the stage of preliminary audit are not rectified by the concerned authorised dealers within two weeks, the returns/forms along with copies of the relative objection memoranda should be released to the Local Statistical Section for further processing and also for the follow-up action relating to those irregularities. It has **not**, however, been possible for the Local Statistical Section to attend to the follow-up action regarding the irregularities detected by the Preliminary Audit Cell as it is rather difficult for them to keep a track of the particular returns/forms which would be under various stages of processing. In the absence of any concerted action by the Bank in this regard, the defaulting authorised dealers are also likely to by-pass the irregularities. This position is extremely unsatisfactory and is required to be remedied without delay.

7.12 According to the existing instructions, the work relating to the final detailed audit is undertaken only when the entire range of statistical work - coding, checking of coding, noting in registers, etc. - is over. No doubt, some time necessarily elapses before the final audit is undertaken. The gap found in the Bombay Office is, however, too wide. It is understood that the detailed audit in respect of the forms relating to period ended December 1974 has only been completed so far. As the main purpose of the final audit is to verify whether authorised dealers have exercised their powers within the delegated authority, this work is also sufficiently important. If the detailed audit is exercised after an unduly long period, the seriousness of the work gets lost both at the level of the Reserve Bank and at the level of authorised dealers. The irregularities detected are not likely to be pursued in many cases because of the lack of involvement after a wide time-gap. This delay at the stage of final audit has been further accentuated because of tardy progress of audit at the preliminary stage.

7.13 The Study Team has given considerable thought to this problem and feels that the present procedure of dichotomy of audit by two complements of staff working under two administrative authorities has to be ended. The Staff Officers attached to the Preliminary Audit Cell are required to seek guidance from the Inspector/Joint Inspector. It is quite likely that the entire Inspectorate may be fully engaged in their normal work in different departments and at times, at different centres. Obviously, there will be a big communication-gap between the operating staff in this Cell and their controlling authorities. This factor has contributed (and will contribute) to a large extent to the present unsatisfactory position. Since the preliminary audit is an integral part of the day-to-day work, the responsibility for its supervision and control should necessarily vest in the Exchange Control Department itself for smooth flow of work. In fact, the Inspector has already made this recommendation.

7.14 In order to curb the possibility of fraudulent practices in the Bank, a package programme comprising of crash audit, issue of permits on security paper, limitation of powers of the Officer-staff for approval

of application/issue of permits, circulation of specimen signatures of officials authorised to counter-sign permits amongst the dealing banks, compulsory routing of applications through authorised dealers and test checks by senior officials has been introduced. The risks of undesirable activities in the Department have been positively contained as a result of these collective remedial measures. It is observed that only routine irregularities are being detected at the stage of preliminary audit. It is considered that there will not be any undue risk if the checks carried out at the preliminary audit stage are exercised simultaneously with the final audit after the processing of the returns/forms is over in all respects. On the other hand, the bottlenecks presently visible at the stage of preliminary audit will go altogether. It is felt that with the reorganisation of the work in the Statistical Section (vide paragraph 7.22 below), the entire processing of forms and returns will be completed within a period of four weeks or even less time. The integrated audit (preliminary audit plus detailed audit) of the returns, remittance forms and the connected documents can be undertaken immediately after that period. If this procedure of

combined audit is approved in principle, the Sub-section to be assigned with the audit work may be asked to record the date of receipt of the forms/returns in order to ensure that they are delivered to them within the stipulated period. This procedure will be helpful in eliminating delay at the intervening stages and will, at the same time, ensure rectification of the irregularities detected in the returns/forms by the defaulting authorised dealers. The audit work can be divided amongst the concerned Staff Officers (each to be assisted by a Clerk) according to certain groups of banks, depending on the number of returns/forms received from them. This practice will make the concerned auditing officials specifically accountable for the quality and quantity of their output and they will also develop an expertise in regard to the operations of the banks assigned to them because of continuous handling. The process of audit may also be expedited by slight amendment of the procedure as under :

- (1) At present, the detailed audit should cover 100 per cent of remittance forms for value above Rs.20,000 and 10 per cent of forms for values upto Rs.20,000 with respect to the remittances effected by authorised dealers under the powers delegated to them and also under permits issued by the Reserve Bank. Although the elements of

preliminary audit, which has been designed primarily to detect cases of fraud, will continue to be applied to the forms covering remittances under permits issued by the Reserve Bank, there is no need to carry out any detailed audit in regard to these cases excepting the endorsement on lump-sum permits (e.g. Students'/Trainees' permits, Blanket Permits and recurring remittances permits); and

- (2) In order to ensure that the Reserve Bank permits enclosed with the returns actually appear in the register of permits issued, it has been stipulated that each Section should maintain four sets of the respective registers so that three registers may always be retained by the Preliminary Audit Cell. It has, however, been found that the remittance forms are not mostly received in the Cell according to the normal turn of the permit-register and the issuing Sections cannot also make the requisite registers available to them at the particular time. The non-availability of permit-registers is a serious impediment in the way of expeditious audit. This difficulty will be overcome if the various Sections introduce Pen-carbon-scroll type register to record the details of permits issued by them and forward a copy thereof to the Audit Section on a day-to-day basis.

7.15 The Study Team has also examined the question of changing
Change of Periodicity
of Returns the periodicity

of some other returns/statements and recommends as
 under :

- (1) Authorised dealers forward two monthly statements (vide paragraphs 3 and 5, Section VIII of the Exchange Control Manual) showing the details of performance bonds/guarantees

executed on behalf of (i) Indian exporters in favour of overseas buyers and (ii) constituents of their overseas branches/correspondents in favour of residents of India, for the due performance of contracts, etc., and the Regional Offices conduct post-facto scrutiny of these statements. As no major irregularity seems to have come to the notice of the Department in this regard, it is considered that the purpose will be served even if the statements are obtained from authorised dealers on a quarterly basis.

- (2) Authorised dealers furnish statements in respect of remittances effected by them on account of imports under deferred credit arrangements on a quarterly basis (cf. paragraph 16, Section XXIX of the Manual) and the Regional Offices forward copies of such statements to the Division of International Finance (Economic Department) direct. As the data available from these returns are used by the Economic Department in connection with compilation of the Balance of Payments statistics, a reference was made by the Study Team enquiring whether it would have any objection if the requisite information is collected on a half-yearly basis. The Economic Department is agreeable to the proposed change and as such, these statements may be obtained from authorised dealers on a half-yearly basis.
- (3) At present, a consolidated statement giving details of the balances and other assets held by non-resident individuals/firms/companies is furnished by authorised dealers on a quarterly basis. The concerned accounts are not listed individually for the purpose of this statement, but the totals of the balances under each category of assets are given separately under 'Free Assets' and 'Blocked Assets' and classified according to the country of residence of the account-holders /vide paragraph 11(a), Section XXIX of the Manual/. Since these particulars are collected more by way of information, it may be sufficient if this statement is obtained on a half-yearly basis.

- (4) The Regional Offices are furnishing, on a monthly basis, three statements relating to the applications for remittances of (i) commission, (ii) overprice and (iii) quality, etc. claims in respect of exports from India. These statements indicate the number of applications received, approved, rejected, returned under objection, etc. to enable Central Office to have an assessment of the work handled by the Offices in this regard and to watch whether the relative applications are being delayed unnecessarily. The statements relating to overprice and claims are supported by supplementary statements in respect of applications approved for remittances of Rs.1,500/- and above. The purpose for which these statements are obtained will continue to be well-served even if these statements are received on a quarterly basis. As the unit costs of exports have generally gone up in the recent years, the supplementary statements may be compiled in respect of remittances for Rs.2,000/- and above.
- (5) In order to oversee the follow-up work done in the Regional Offices in regard to the outstanding exports, the following statements are obtained by Central Office on a monthly basis :
- (i) A summarised report indicating, inter alia, number of warning letters issued, number of exporters who have failed to reply to the warning letters issued by the Bank, number of exporters whose names have been placed on the Caution List, number of exporters whose cases have been referred to the Enforcement Directorate, number of export outstanding cases closed, etc.;
 - (ii) A statement showing bank-wise breakdown of export bills outstanding;

- (iii) A statement showing the total value of bank certificates submitted by the large exporters against whom special follow-up measures have been instituted; and
- (iv) A statement showing the particulars of fresh outstanding cases of large exports subjected to special follow-up measures.

In the event of introduction of a modified GR etc. Form Drill, as suggested in Chapter IV, Offices will normally be required to initiate follow-up action in respect of all outstanding export cases in an intensive manner. It may, therefore, be sufficient if these statements are compiled on a quarterly basis.

- (6) Central Office is, at present, forwarding two statements to Government relating to (i) remittances received in India for investment purposes and (ii) repatriation of foreign capital from India on a monthly and quarterly basis respectively. Since the cases in respect of which the particulars are embodied in these two statements are only a few, Government have, in response to an enquiry made by the Study Team, advised that they are agreeable to receive these statements on an annual and a bi-annual basis respectively. The Economic Department (Division of International Finance) to whom copies of these statements are endorsed has, on the other hand, no objection to the proposed re-scheduling of the frequency on an annual basis (April-March). In view, however, of the decision of Government, the first statement may hereafter be compiled for each financial year ending 31st March and the second statement for the half-years ending 30th September and 31st March.
- (7) Offices are furnishing a statement on a quarterly basis, giving the number of copies of the Exchange Control Manual held in their stock. This statement may be obtained on a half-yearly basis.

7.16 With the passage of time, some of the statements/returns received or compiled by the Exchange

Discontinuance
of Statements

Control Department

have lost their

utility. A few

such statements obtained from authorised dealers may be discontinued, as indicated below :

- (1) Under the mechanism of the erstwhile Sterling Area, a common Dollar pool was maintained by the London Control and member-countries could draw on that pool freely to meet their bona-fide requirements irrespective of their own contributions. The Bank of England, however, prescribed certain returns to oversee the operations of the member-countries in this regard. Accordingly, the Exchange Control Department has been obtaining from authorised dealers (vide paragraph 7, Section XXIX of the Manual) a monthly statement of credits of U.S.Dollars and Canadian Dollars to their accounts with overseas branches/correspondents and two supplementary statements, indicating (i) purchases of these currencies from the London Market/authorised dealers, and (ii) sales to the Reserve Bank/authorised dealers/London Market. The Regional Offices of the Department are, in turn, required to scrutinise these statements and code the relevant data before onward transmission to Central Office. Since India is no longer a member of the Sterling Area, these statements have no significance at present. Although authorised dealers are still continuing to submit these statements, the Department has stopped sending the summary statements to the Bank of England. The Bank of England is not also pursuing the matter, apparently due to the changed situation. In view of this position, authorised dealers may be advised to discontinue these statements.

- (2) Authorised dealers are required to submit two monthly statements giving details of (i) import letters of credit opened/bank guarantees issued and (ii) import letters of credit/bank guarantees cancelled and outstanding (cf. paragraph 15, Section XXIX of the Manual). Similarly, a monthly statement is also received from authorised dealers showing the details of export letters of credit advised directly, or through them, to Indian exporters (vide paragraph 17 of the same Section). The Regional Offices of the Department have been advised to code the relevant data and forward the original copies of the statements to the Department of Statistics after prima facie scrutiny. These statements do not directly serve any useful purpose to the Exchange Control Department. As the tabulations made from these statements are ultimately forwarded to the Economic Department, a reference was made to that Department enquiring whether these statements could be discontinued. The Economic Department has advised that since the relative tabulations prepared by the Department of Statistics are received after a long time-gap (it is understood that the last tabulation was made for the month of July 1972), they are of no practical use. The Department has no objection if coding of the data from the statements relating to both import letters of credit and export letters of credit is discontinued. The Department of Statistics has also advised that copies of these statements need not be sent to that Department by the Regional Offices of the Exchange Control Department. In view of this position, these three monthly statements may be discontinued.
- (3) In addition to the statement, referred to in paragraph 7.15(3) above, in respect of the balances of non-resident individuals/firms/companies, authorised dealers are also submitting another quarterly statement (vide paragraph 11(b), Section XXIX of the Manual), showing the aggregate balances of private non-resident

accounts at the beginning and end of each quarter and the total credits/withdrawals made during that period. As in the other statement, the details of this statement are also classified according to the country of residence of the relative account-holders, without indicating the particulars of any individual account. These statements are being forwarded by the Regional Offices of the Exchange Control Department to the Department of Statistics after coding the names of authorised dealers and the countries. Since the country-wise balances indicated in the latter statement are also available from the former statement and the collective figures of all debits and credits during a particular quarter (shown in the latter statement) do not serve any useful purpose, it is felt that the latter statement in respect of the Ordinary Non-Resident Accounts may be discontinued.

- (4) Authorised dealers are, at present, sending reports regarding rupee travellers cheques (encashable externally) at two stages - at the time of issue and again at the time of reimbursement to the overseas branches/correspondents (vide paragraphs 5 and 7, Section XV of the Manual). Since R-5 returns are incorporating these transactions at the point of actual reimbursement and as office copies of the relative exchange control permits, when issued, are enclosed by the Department only at that time, the first report is not practically used. This report may, therefore, be dispensed with and authorised dealers advised to surrender the utilised exchange permits along with the relative R-5 returns.
- (5) In order to keep a watch on the realisation of export bills, four statements are obtained from authorised dealers (vide paragraph 29,

Section XVIII of the Manual), as under :

- (i) Quarterly statements showing the complete details of bills outstanding beyond the prescribed period;
- (ii) Monthly statements giving particulars of cases which have become outstanding during the particular month;
- (iii) Monthly statements indicating the cases reported outstanding in the previous months but realised during the particular month; and
- (iv) Monthly summary statement showing the total outstandings as at the close of the previous month plus fresh outstandings minus realisations during the particular month.

The first statement is quite exhaustive and very useful. In case authorised dealers submit this statement in proper time, the Control will get due notice regarding the outstanding cases and will be able to initiate timely follow-up action. Though the data available from the other three statements are informative, no special use is made of these details for the purpose of follow-up action and these statements are also received after considerable time-lag. The last three statements may be discontinued. In fact, discontinuance of these statements will help authorised dealers compiling the quarterly statement timely and properly.

- (6) Authorised dealers have powers (cf. paragraph 40, Section XVIII of the Manual) to issue certificates in regard to the despatch of gift parcels without complying with GR etc. Form procedure provided, inter alia, the value of contents does not exceed Rs.300/- and the export is made by parcel post or air-freight. The banks were having these powers for a long time, but the value limit for them was Rs.270/- only. In May 1974, the value limit

was raised marginally to the present level and authorised dealers were advised, for the first time, to furnish quarterly statements showing the details of such cases. It is understood that no case of abuse of this facility has come to the notice of the Department. These statements are now simply filed in the Bombay Office. It may be considered (in consultation with Government, if necessary, at whose suggestion this statement seems to have been introduced) whether this statement may be discontinued.

- (7) The scheme of extending forward exchange contracts on roll-over basis in respect of imports and exports on deferred payment terms was introduced in 1968. With a view to assessing the extent to which these facilities were being availed of by exporters or importers, two monthly statements were initially prescribed (vide paragraph 11, Section XXVIII of the Manual), as under :

- (i) Statement of roll-over forward contracts (Sales and Purchases separately) booked; and
- (ii) Statement of outstanding roll-over forward contracts (Sales and Purchases separately) at the close of each month.

The same instructions are now being continued on a long-term basis, although very few parties are availing themselves of these facilities (presumably because of higher costs on account of periodical extensions). The statements, when received, are just filed without any action. In fact, these statements have hardly any use now. These two statements may accordingly be discontinued.

7.17 Similarly, a few statements compiled by the Regional Offices and forwarded to Central Office may also be discontinued, as indicated below :

- (1) Every month, a statement showing the number of passage applications approved, rejected, etc. is received by Central Office, but no action whatsoever is taken on such statements. In addition, a composite statement, giving particulars of students'/trainees'/travel permits issued and 'P' Form applications approved/rejected, is sent to Central Office for inclusion of the statistical material in the Bank's monthly Bulletin. It is, therefore, suggested that the former statement may be discontinued.
- (2) The Regional Offices are expected to send two monthly statements regarding issue of licences for import and export of gold coins and articles (other than personal jewellery). Normally, such cases are extremely few during these days. Besides, this work is centralised at the Bombay Regional Office. It is not necessary for all the Regional Offices to furnish these two statements, as a matter of routine, to Central Office. It will be sufficient if the Regional Offices keep a systematic record of the licences issued in these cases so that the requisite information may be obtained readily, as and when needed.
- (3) At present, four monthly statements regarding students/trainees are sent to Central Office - two separate comprehensive statements in respect of students/trainees proceeding for the first time for higher studies or training, one summary statement (country-wise) showing the total number of students/trainees abroad and foreign exchange released to them and another summary statement in respect of the fresh students/trainees (for

inclusion in the Bank's monthly Bulletin). Copies of the first two statements are forwarded by Central Office to the Ministry of Education, Government of India, and also to the Indian High Commission in the U.K./ Indian Embassy in U.S.A. As the third statement is merely filed in Central Office without any action, it is felt that this statement may be discontinued. Since the Regional Offices maintain a systematic record of all cases of training and studies, the information contained in this statement may be conveniently obtained in case of need.

- (4) The Regional Offices are required to forward two monthly statements showing the details of cases involving release of exchange for miscellaneous purposes like Study Tour, Conference, Employment, etc. and for Business purposes. These statements are quite voluminous and contain columns to indicate names/addresses of the concerned parties, purpose of their visit, country/ies to be visited, duration of stay and exchange released to them. In addition, a quarterly statement showing the particulars of cases where exchange is released for medical treatment is sent by the Regional Offices. Copies of these statements are also forwarded by Offices to the local Enforcement Directorate. Since the relevant particulars are readily available from the prescribed registers and the summarised information is otherwise furnished to Central Office every month through a composite statement [vide item (i) of this paragraph] and as Central Office do not take any action on these statements, it is of no use compiling these long statements on a continuing basis. These may be discontinued. Where, however, violation of any Exchange Control Regulations is suspected, the details of such specific cases can be furnished to the Enforcement Directorate at their request. The Regional Offices may also refer all doubtful cases to the Directorate with complete case papers.

- (5) According to the standing instructions, Offices should furnish to Central Office a quarterly statement showing the details of exchange sanctioned to Indian sports teams and sportsmen for participating in tournaments abroad. These statements are filed in Central Office without any action. As the requisite information can be readily collected from the Regional Offices even at a short notice and such cases are obviously very few, there is no need for having any such statement on a regular basis in Central Office.
- (6) As separate remittances on account of Head Office expenses by the Indian branches of foreign companies are not allowed at present, the quarterly statements showing the particulars of such applications approved and rejected need not hereafter be sent by the Regional Offices.
- (7) Offices are furnishing to Central Office a quarterly statement, giving the details of blanket exchange permits issued/renewed and utilisations of such permits. In turn, Central Office are also transmitting a consolidated report to Government on a quarterly basis. As obviously these returns were prescribed at the time of introduction of this facility for the purpose of assessment of its working, a reference was made by the Study Team to Government enquiring whether they were still interested to have this report on a regular basis. Since Government have advised that they do not require these reports any longer, the statement need not hereafter be sent to them by Central Office.
- (8) The Regional Offices have been sending a quarterly statement in respect of the export of gift articles by the members of the American Peace Corps Volunteers working in India. Although such cases are extremely few (it is understood that only three cases were reported by New Delhi Office during

1973-74), Offices have been sending 'Nil' statements, as a matter of routine, at the end of each quarter. There is absolutely no further need to have this statement.

- (9) Offices are presently sending a quarterly statement showing the details of exchange sanctioned to Indian business houses for their overseas offices/subsidiaries and in turn, Central Office forward copies of these statements to the Ministry of Finance. As subsidiaries are now allowed to be opened very sparingly and since the particulars of remittance facilities granted for the opening or maintenance of offices abroad may not be a matter of continuing interest to Government, a reference was made to them by the Study Team enquiring whether they would like to have these statements on a regular basis. While Government desire to know the details in respect of the overseas subsidiaries, they are no longer interested to have the information relating to the foreign offices of such companies. The Regional Offices may, therefore, be advised to incorporate the particulars on account of overseas subsidiaries only in the above statement.
- (10) Duplicate copies of six quarterly **statments** (vide paragraph 7.19 below) are forwarded by the Regional Offices to Central Office for information. As no useful purpose is served by transmission of such a large number of unprocessed statements to Central Office, they need not hereafter be sent by the Regional Offices.
- (11) Similarly, duplicate copies of two annual and three quarterly statements indicating the external operations of the Indian insurance organisations are sent by the Regional Offices to Central Office after scrutiny. As no further use of these statements is made at Central Office level, they need not be sent by the Regional Offices.

In all the above cases, the dealing officers may be instructed to ensure that the relative registers are maintained properly and the entries therein are also duly verified on a day-to-day basis.

7.18 No scrutiny of individual transactions in respect of Non-resident (External) Accounts is under-

taken at present

Scrutiny of
Returns in
Selected Areas

in the Bombay Office.

It is particularly

important to have a close watch on the operations on these accounts inasmuch as the balances thereof may be remitted freely by authorised dealers without prior approval of the Reserve Bank and the accounts may also serve as a hot line for the speculative investors. At the same time, the procedural formalities in respect of this facility have always to be kept simple in view of the potentialities of inward remittances from non-resident Indians. Offices may be instructed to exercise 100 per cent scrutiny of all Exchange Control forms [Form A7(C)] received from authorised dealers with the relative monthly statements.

7.19 With the increasing world trade, Indian shipping companies have been consistently increasing their tonnage capacity at a considerable foreign exchange outlay. In order to have an effective control on the foreign exchange receipts and disbursements of the ocean-going Indian vessels, a net work of returns has been prescribed as indicated below :

A. Annual

- (1) Details of vessels owned at the beginning of each year; and
- (2) Summary (vessel-wise) of foreign exchange earnings and disbursements.

B. Quarterly

- (1) Deployment of vessels;
- (2) Foreign exchange earnings and disbursements (port-wise and ship-wise);
- (3) Charter hire earnings and disbursements on 'Time' charter basis;
- (4) Charter hire earnings and disbursements on 'Voyage' charter basis;
- (5) Foreign exchange receipts and expenditure on foreign vessels chartered; and
- (6) Summary of freight revenue and passage fare earnings and disbursements (company-wise).

C. Monthly

Balances held abroad.

Most of the major shipping companies are operating in the Bombay area. It is observed that none of them is compiling all the statements according to the prescribed instructions or forwarding the requisite supporting documents. The statements received in the Bombay Regional Office are not also being scrutinised properly. In fact, they have not been touched at all during the last one year or so. It is understood that this situation has arisen due to the receipt of incomplete statements, inadequacy of staff and lack of operational instructions. As considerable amount of foreign exchange is earned and disbursed by the Indian shipping companies, there is an inherent risk of leakage of exchange through this channel unless a sustained follow-up action is taken. It appears that some discussions were held in the past with the representatives of the shipping trade in order to simplify the returns, but no positive decision could be taken due to various complexities. The Study Team is also not in a position to offer any ready solution to meet the situation. It is, however, recommended that scrutiny of the existing returns should be undertaken on a regular basis even if they are not complete in all respects.

Simultaneously, a fresh attempt may be made at a senior level to reorganise the relative reporting system in view of its importance.

7.20 A suggestion has been received from the Department of Statistics (two Officers of the

<u>Transfer of</u> <u>Statistical</u> <u>Work to Depart-</u> <u>ment of Statistics</u>	Department of Statistics are attached to the Statistical
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Sections of the Exchange Control Department at Bombay and Madras) that the work carried out by the Statistical Section of the Exchange Control Department may be bifurcated into two distinct stages - statistical work and audit work. According to the proposal, the statistical work may be entrusted exclusively to the Statistics Department, while the latter may be done in the Exchange Control Department. Although, the staff of the proposed Statistical Section will function in the Exchange Control Department, they will be subjected to the administrative control of the Statistical Adviser. The suggestions for transfer of the statistical work from the Exchange

Control Department has been mooted broadly by the following considerations :

- (1) The staff of the Exchange Control Department do not have enough background to understand the transactions in the perspective of statistical processing;
- (2) The statistical processing of the returns/statements may be done at all levels by the staff of the Statistics Department more efficiently under the supervision of a Senior Officer of that Department;
- (3) The independent Statistical Section will be able to give sufficient attention to the coding work and to eliminate delay in the processing of R returns;
- (4) Bank-wise, state-wise, period-wise or purpose-wise data can be prepared by the Section more quickly; and
- (5) Cases of wrong/incomplete reporting by authorised dealers can be scrutinised more conveniently with the help of computer or suitable tabulations.

7.21 The proposal for simultaneous working of two distinct administrative units on the same returns/forms in the same Department almost at the same time will create various practical difficulties. It will not also be economical to maintain two sets of staff for the smaller offices like Ahmedabad, Bangalore, Cochin and Kanpur where the volume of work is usually less, nor the introduction of two sets of procedure for bigger and smaller offices will be desirable. The Study Team is not, therefore, in favour of entrusting the statistical work of the Exchange Control Department to the Department of Statistics.

7.22 In order to keep an effective supervision on the flow of work in the Local Statistical

Section, the

Re-organisation of
Local Statistical Section Section may

be cut into distinct operational units on the lines indicated below :

I. Receiving Sub-section

- (1) Authorised dealers have been advised to send the prescribed returns/statements ('Nil' advice in case of no transactions) within the stipulated dates. As generally these statements/returns are not received in time, the statistical processing also gets delayed in the Reserve Bank. Since it is very necessary to issue reminders to the defaulting banks in a systematic manner, it is suggested that the Statistical Section may observe the following time-schedules for this purpose :

Nature of return	Date on which reminders to be issued from the due date
(i) Weekly/Trimonthly	7th day
(ii) Fortnightly	10th day
(iii) Monthly	20th day
(iv) Quarterly/Half-yearly/Yearly	30th day

- (2) As some time is lost in transmission of the relevant documents to the dealing staff, this Sub-section should ensure that forms/returns/statements received are daily passed on to other Sub-sections as under :

Nature of documents	Sub-section to which to be passed
(i) (a) Duplicate R returns along with remittance forms	Form Coding Sub-section
(b) Exports supplementary statements together with GR etc. forms;	-do-
(ii) Original R returns and supplementary statements regarding inward remittances (for Rs.10,000 and above);	Returns Coding Sub-section
(iii) Statements in prescribed forms;	Statements Sub-section
(iv) Fully utilised Import Licences, where received separately	Audit Sub-section

II. Forms Coding Sub-section

- (1) Under the present system, coding of GR etc. export forms is done under the supervision of the Exports Section and that of other forms/returns is done in the Local Statistical Section. In view of the basic similarity, the entire coding work may be centralised in the Local Statistical Section, though normally two different groups will attend to the work regarding export and non-export data.

This integration will be helpful because -

- (i) In the event of uneven flow of work relating to either of the groups, the entire work of this Sub-section can be equitably distributed amongst all the coders and checkers to ensure maximum utilisation of their services;
 - (ii) There will be better overall supervision of the coding work by one Exchange Control Officer (instead of by two in two Sections);
 - (iii) As the progress of coding of the export and non-export data will be, more or less, uniform under this system, it will be helpful for the compilation of the Balance of Payments statistics; and
 - (iv) The drudgery of the work will be reduced to a certain extent if the coders and checkers are inter-changed between the two groups periodically.
- (2) It has to be ensured that the coding work is kept absolutely up-to-date. The forms/returns emanating from authorised dealers (to be routed through the Receiving Sub-section) and the original GR/EP/PP etc. export forms emanating from the Customs/Postal authorities on a particular day should be distributed amongst the coders equitably. A very close supervision will be required to be exercised by the concerned Staff Officers, with reference to the prescribed registers, to see that the work of coding and checking is completed on a day-to-day basis. After the coding, GR etc. export forms should be delivered to the Exports Section and the remittance forms to the Returns Coding Sub-section of the same Section.

III. Returns Coding Sub-section

- (1) On receipt of the original R returns, this Sub-section may promptly compile the Import/Export data and forward the same to the Central Statistical Section for onward transmission to Government.
- (2) According to the existing procedure, certain purchase items reflected in the R1, R2 and R4 returns are coded. After coding the requisite data, the originals of these three returns may be sent to the Central Statistical Section straightway for further processing. The originals of R5 returns may be utilised for compilation of statements showing the operations on Non-resident Rupee accounts of the Bank of Foreign Trade of U.S.S.R. and country-wise data relating to imports/exports from/to the Bilateral Account countries before sending them to the record-room. Similarly, the supplementary statements regarding inward remittances (Rs.10,000 and above) may also be passed on to the record-room directly as soon as the relevant items relating to these supplementary statements are coded and noted in the prescribed register.
- (3) With a view to compiling the prescribed purpose-wise statements, the relative items may be noted by this Sub-section in the appropriate registers from the code sheets/remittance forms received from the Forms Coding Sub-section. The duplicate R returns and remittance forms may thereafter be sent to the Audit Sub-section.

IV. Statements Sub-section

This Sub-section will undertake scrutiny of all statements received from authorised dealers and thereafter consolidate the requisite data for submission to the various authorities. As soon as the consolidated statements are prepared, the individual statements received from authorised dealers may straightway be sent to the record-room.

V. Audit Sub-section

- (1) On receipt of the remittance forms/returns from the Returns Coding Sub-section, the integrated audit (preliminary audit plus detailed audit) may be undertaken promptly by Staff Officers. The irregularities, if any, may be pointed out in writing and the relative forms/returns sent to the record-room simultaneously.
- (2) Along with the audit of remittance forms/permits/returns, scrutiny of fully utilised import licences and endorsements on the bulk exchange permits issued by the Reserve Bank may be done by Clerks Grade I.
- (3) Under the current instructions, authorised dealers are required to produce documentary evidence in the shape of Bills of Entry/Postal wrappers as evidence of import in certain cases. This is supposed to be watched by the Local Statistical Section, but the follow-up action in this regard is not satisfactory. In view of the importance of this work, this Sub-section may keep close supervision over the work through the appropriate registers.

7.23 The Study Team feels that a very sustained and analytical study of each single statement or return

Setting up
of a Special
Committee

right from the first
stage of compilation
to the final stage

of utilisation is necessary. Unless such a depth analysis is made, it is not possible to make any effective contribution towards rationalisation of the existing mass of data. A few years back, a high-

powered team was set up to examine the possibility of setting up of a centralised 'Data Bank' in the Bank, covering, inter alia, the statements and returns received by the Exchange Control Department from authorised dealers. The study was unfortunately given up after some months without any tangible recommendations. A detailed study of the returns and statements has now become imperative to tone up the system. It is recommended that a separate committee comprising of representatives from the Exchange Control Department, Economic Department, Department of Statistics and the Organisation & Methods Division may be set up exclusively to go into the question of rationalisation of returns/statements received and compiled by the Exchange Control Department. A representative of the Foreign Exchange Dealers' Association may be associated with the Committee in regard to the study of the statements/returns emanating from authorised dealers. Similarly, participation of a representative of the Indian shipping companies may prove useful while working on the returns received from these companies.

7.24 We recommend that -

- (1) The R returns may be compiled by authorised dealers on a bi-monthly basis instead of on a tri-monthly basis;
- (2) A system of integrated audit may be introduced in place of the present system of two-stage audit;
- (3) The periodicity of a few selected returns/statements may be re-scheduled;
- (4) A few listed statements, which have lost their utility with the passage of time, may be discontinued;
- (5) The Local Statistical Section may be sub-divided into five operating units for better supervision of the work-flow; and
- (6) **A Special Committee** comprising of representatives from the Exchange Control Department, Economic Department, Department of Statistics and Organisation & Methods Division may be set up to go into the question of rationalisation of the statistical work.

CHAPTER VIIIMANAGEMENT INFORMATION SYSTEM

8.1 The objective of a scientific Management Information System is to provide information in a compact form on all significant aspects for purposes of formulation of policies, regulation of work-flow, evaluation of performance, anticipation of developments and for other decision-making processes. This would, therefore, imply that the requisite information should reach the Management promptly and regularly. The importance of such a system for the Exchange Control Organisation needs no emphasis. Although the existing returns and statements contain various types of data and statements are also specially compiled from time to time to meet some immediate needs, there is practically no regular flow of information to the senior levels. With a view to building up an integrated Information System, there should be an even flow of information. At the same time, care has to be taken to ensure that the system does not

become stagnant or overcrowded and that it is periodically moulded to meet the changing requirements.

8.2 The inward letter-diary is an important indicator for the Department. Even a glance will give an impression whether any letter or application

Scrutiny of
Inward Dak

is required to
be dealt with on
a priority basis.

Although Exchange Control Officers of certain Sections scrutinise the inward dak daily, the system is not being followed in many Sections. It is imperative that all Exchange Control Officers should scrutinise the daily dak, particularly for the purpose of segregating important or urgent letters and applications. While going through the letters, it may also be seen whether they are all inwarded or not. This practice will enable them to see whether there has been delay in any particular case or any complaints have been lodged by any party. The Study Team recommends that the system of scrutiny of inward dak should be made compulsory and the concerned Deputy/Assistant Controllers may watch whether this practice is meticulously followed by

the Exchange Control Officers.

8.3 At present, the Officers-in-Charge have no means to know the position of work in the various

Statements of
Outstandings

Sections in the
absence of any
statements of

outstandings. Instructions have recently been issued in regard to preparation of fortnightly statements of outstandings. The concerned Deputy/Assistant Controllers may ensure that the Sections under their charge submit the fortnightly statements of outstandings on a regular basis and initiate appropriate action in regard to the outstanding cases.

8.4 The Controller may receive quarterly reports from the Deputy Controllers (through the

Quarterly Reports
to Controller

Additional/
Joint Controller)
of Central

Office and from the Joint/Deputy/Assistant Controllers of the Regional Offices, covering broadly the following information:

- (1) Number of letters received, letters outstanding and reasons therefor;
- (2) Number of returns/statements due to be received from various agencies (to be specified), returns/statements

actually received and processed and reasons for lag, if any;

- (3) Number of statements due to be sent to various agencies (to be specified) actually sent and reasons for default, if any;
- (4) Nature of cases where follow-up action is required to be taken, approximate number of cases (category-wise) where such action has not been taken and reasons therefor;
- (5) Particulars of cases referred to Government but reply not received in a month (applicable both to Central Office and the Regional Offices) and referred to Central Office but reply not received in a fortnight (applicable to the Regional Offices);
- (6) Significant features/trends, if any, noticed in any area; and
- (7) General observations (briefly bringing out the special problems faced during the period and possible remedies).

8.5 The data regarding foreign exchange and foreign trade are published regularly by the

Data in Selected
Areas

Economic Depart-
ment in the
Bank's monthly

Bulletin. It is very necessary for the Exchange Control Department to be well posted with the overall trends of the Balance of Payments, Balance of Trade and Exchange Reserves, since these figures

will bring an awareness of the coming events. This apart, the Control should have its own perspectives in respect of other important areas. Having regard to the current developments, the Study Team considers that for the purpose of the Management Information System, consolidated data may be compiled in respect of the following major areas:

- (1) The activities of the foreign-controlled companies have attracted much attention in the recent years and in fact, the main thrust of the new Foreign Exchange Regulation Act is to regulate the operations of such companies and firms. A statement showing, inter alia, the names and addresses of such companies, their capital structure (non-resident and resident share-holdings), nature of activities, remittances on account of profits/dividends/royalties, technical know-how, imports/commission on exports, etc., inward remittances on account of exports, and loans and overdrafts may be prepared annually. The concerned companies may be grouped according to the country of residence of their Principals/Head Office and according to the nature of their operations;
- (2) In view of the growing interest of Government and Parliament in the activities of large Indian industrial houses, the Department should compile some broad data, from the foreign exchange angle, about a few selected companies (not exceeding 50 initially) belonging to the leading industrial groups through appropriate questionnaires. The information should relate to foreign collaboration agreements (if any), agency arrangements

abroad for imports/exports and remittances made to such agents, overseas offices/subsidiaries, foreign currency loans, imports and exports and may be collected on a yearly basis;

- (3) With the increased emphasis on the promotion of joint ventures, consultancy services and engineering contracts in foreign countries, schedules may be drawn up in each Regional Office annually, indicating the names and addresses of the concerned Indian companies/firms, country where the ventures/services undertaken, nature of operations, quantum of foreign exchange/exports outlay, foreign exchange liabilities (direct or contingent) of the Indian firm or company, particulars of shareholdings (in case of joint ventures), dividends/income earned and repatriated;
- (4) Since special incentives are being offered to non-residents of Indian nationality or origin regarding remittances to India, a consolidated statement showing the particulars of Non-Resident (External) Rupee Accounts/Foreign Currency-denominated Accounts, special accounts for purposes of priority allotment of car/scooter, cement and tractors may be prepared on a quarterly basis. This statement may be classified according to the country of residence of the non-resident account-holders/remitters and may include only the number of accounts and aggregate balances outstanding at the end of each reporting period;
- (5) Consequent on the significant increase in exports from India, various measures are afoot to liberalise the exchange facilities for large exporters. It is necessary to have a regular information on a quarterly basis regarding the number of exporters in whose favour Blanket Exchange Permits have been issued for the first time or renewed

in lieu of previous permits, total exchange released and utilised;

- (6) On the same ground, a greater responsibility has now devolved on the Department in respect of the follow-up action in cases where the export value is not realised within the prescribed time. A report covering the cases involving an export value of Rs.25,000/- or more may be prepared on a quarterly basis, indicating the names and addresses of the concerned exporters, commodity/ies, value, country/ies to which exported, reasons for non-realisation, action taken and proposed to be taken. The progress achieved in these particular cases may be briefly reflected in the subsequent quarterly reports so long as the value is not fully realised or the case is otherwise closed;
- (7) As the Indian shipping companies are acquiring larger number of ships in the recent years at a considerable foreign exchange outlay, a consolidated statement showing the names of the companies, outstanding balances of foreign currency loans incurred by them for purchase of ships (indicating the original amount of loan, source, rate of interest, terms of repayment, security offered, etc.), total collections and disbursements in foreign exchange, may be prepared on a half-yearly basis by the Bombay, Calcutta and Madras Offices (in whose jurisdiction the Head Offices of most of the leading shipping companies are situated). A similar statement in respect of Air India may also be compiled by the Bombay Regional Office.

8.6 It will be useful if the Department arranges to get a regular flow of information in regard to

Special Exports Data

exports -

exporter-

wise, commodity-wise and country-wise. Accordingly, it is suggested that the Machine Section (Department of Statistics) may be requested to compile three statements on an annual basis (as on 31st December) on the lines indicated below :

A. Commodity-wise Exports - Year 19 .

<u>Commodity</u>	<u>Country</u>	<u>Amount</u> Rs.
(1) Tea	(a) U.K.	
	(b) U.S.A.	
	(c) West Germany	
	etc.	
	Others	-----
	Total	=====

B. Country-wise Exports - Year 19 .

<u>Country</u>	<u>Commodity</u>	<u>Amount</u> Rs.
(1) U.K.	(a) Tea	
	(b) Cotton Textiles	
	(c) Jute Manufactures	
	(d) Engineering goods	
	etc.	
	Others	-----
	Total	=====

C. Exporter-wise Record - Year 19 .

<u>Name of the Exporter</u>	<u>Commodity</u>	<u>Amount Rs.</u>
(1) XYZ & Co.	(a) Tea	
	(b) Leather Goods	
	(c) Spices	
	etc.	
	Others	-----
	Total	=====

While the statistics pertaining to the first two groups are available from the publications of the Director-General of Commercial Intelligence and Statistics (DGCI&S), Calcutta, it is felt that the Department should have its own data based on export realisations as reflected in the Export Forms. The necessity of building up exporter-wise record was considered earlier, but no decision could be taken at that time. The proposed tabulations will provide a good background material and will be a ready aid for formulation or review of policies concerning exports. These data will also help expeditious disposal of applications from exporters for travel for export promotion, issue of Blanket Permits, opening of offices abroad, etc. It will, however, be a colossal task to compile data relating to all

exporters, all commodities or all countries. For the sake of convenience, some cutoff points will have to be determined in consultation with the Department of Statistics and the Economic Department (Division of International Finance).

8.7 At present, statistical data relating to the number of exchange permits issued and the amount of

Data Published in
the Bank's Bulletin

exchange released
for travel abroad
for various

purposes such as studies, business, medical treatment, etc. and the number of 'P' Forms approved are published in the Bank's monthly Bulletin. It is suggested that the number of FTS declarations approved during the reporting period may also be included in the relative statement.

8.8 The Study Team has observed that the Department does not make any comparative study of even the

Nucleus of a
Data Bank

important data
on a regular
basis, unless

otherwise advised to do so to meet any specific need. It has been suggested (vide Chapter XII) that

a separate Statistics Division may be set up in Central Office, primarily to strengthen the statistical base of the Department. This Division will have to ensure that the prescribed statistical data are received from the various sources according to the stipulated dates. A regular diary-card system may be introduced to watch the receipt of the prescribed statements/returns and to actively follow-up the cases of default. Where routine reminders fail, the matter should be taken up promptly at a senior level. It has also to be ensured that all data received from the branches are consolidated, without any unreasonable time-lag, irrespective of whether the information is required to be furnished to any other Division in Central Office/Economic Department/Department of Statistics or Government. To make the tabulations more meaningful, the figures for two back periods should invariably be embodied in the summary statements. In other words, the Statistics Division may develop itself into a miniature 'Data Bank' so that the requisite information relating to the diverse aspects of Exchange Control may be readily made available to the Management or Government, for special studies

or for answering the Parliamentary Questions. It will, therefore, be necessary for other Divisions of Central Office to endorse a copy of each statement/return collected and compiled by them directly. In that case, the Statistics Division will be able to oversee and co-ordinate the entire range of statistical work in the Department.

8.9 Besides the flow of selected data, periodical discussions at the various levels offer another

Periodical
Meetings

effective channel
for the Management
Information

System. It will be useful if the Heads of the Regional Offices and Central Office Divisions are in a position to meet the Deputy Governor/Controller collectively once in a year for exchange of views on organisational problems and also on the problems affecting the various facets of the Control administration. Such meetings are arranged in all leading financial and non-financial institutions for better understanding and for unanimity of approach at the controlling level. The Heads of the Regional Offices and Central Office Divisions may also arrange to have

identical discussions with their juniors as frequently as possible. The proposed collective meetings with the operating staff will be helpful for understanding the work-position and communicating the guidelines to them.

8.10 At present, various data flow upwards from branches to Central Office and the directions move

downwards from

Newsletter

Central Office

to branches. The underlying link and implications of the instructions are not often understood at the branches. It will be beneficial if a newsletter is issued by the Controller, on a quarterly basis, to bridge this gulf. The newsletter may circulate the significant data regarding all-India and **region-wise** operations of the Control (to be prepared by the Statistics Division out of the various statements received from the Regional Offices), elucidate the background of major changes in respect of the policies and procedures and communicate the leading national and international developments having a bearing on the outlook and working of the Control.

8.11 For the evolution of a Management Information System, we recommend that —

- (1) Quarterly reports in respect of the listed items may be received by the Controller from the Central Office Divisions;
- (2) Consolidated data may be compiled in major specified areas;
- (3) Special data relating to exports may be obtained from the Department of Statistics;
- (4) The Statistics Division may form the nucleus of a 'Data Bank';
- (5) Periodical meetings may be held at various administrative levels for better appreciation of problems; and
- (6) A newsletter on the developments in Exchange Control may be issued by the Controller on a quarterly basis.

CHAPTER IXCUSTOMER SERVICE

9.1 The Exchange Control Department is essentially a service organisation which caters to the foreign exchange needs of Government Departments, Public Sector Undertakings, Indian and foreign companies/firms, foreign tourists, diplomatic officials, business executives and cross-sections of the public. The services cover a wide and varied range - approval of 'P' Form/FTS applications, release of exchange for higher studies, medical treatment, participation in conferences/seminars, study tours, membership subscriptions, travel for business purposes, issue of Blanket Exchange Permits, import/export of currency, engagement of foreign nationals, remittances of current income and capital, despatch of gift articles, issue of jewellery permits, specified matters relating to import/export of merchandise, foreign investments in India and Indian investments abroad and

a host of other problems. Obviously, therefore, a large number of customers representing various interests get in touch with, or walk in, the Department daily for information/guidance and for pursuing their applications. People also come just to deliver or collect letters and forms. The Department is rather a window through which the Reserve Bank extends direct public service and accordingly, the image of the institution depends, to a great extent, on its performance.

9.2 At present, there is no organised customer service in its true sense in the Department. In

Present Position

Amar Building and
the Mercantile Bank

Building where the operating Sections of the Bombay Regional Office are situated, two different Enquiry Sections are working. These Sections are normally placed under the charge of new and inexperienced Staff Officers or at times, under senior Staff Officers whose services are not perhaps found useful elsewhere. It would, therefore, be often difficult for these officials to tender satisfactory advice on the various procedural and intricate problems

posed by the visitors. Nor do these officials directly attend to the disposal of even very urgent applications. Mostly, the Enquiry Sections spend their time in distributing the prescribed forms/questionnaires to the visitors or pass them on to the Officers or the operating staff inside the Department.

9.3 The existing Enquiry Sections are also woefully ill-equipped to offer even the minimum amenities to the visiting public. There is acute shortage of sitting space, furniture and fans, with the result that quite a few of the visitors, including ladies, children and old persons, are required to stand (often perspiring) for long periods to collect their desired information or get their immediate services done. In the absence of facilities for writing applications or letters, people have been found to place papers on their knees or against the walls and scribble on them. As there are no purpose-wise counters, the enquirers throng together in a state of confusion. Sometimes, the waiting crowd becomes exasperated and makes noises to attract the attention of the staff working inside the

enclosures. In the commotion so created, innocent visitors generally suffer — the exerting visitors often get preferential treatment and there have been instances of pick-pocketing too.

9.4 In view of the unsatisfactory arrangements, the waiting visitors become anxious to approach the dealing staff directly for proper guidance or for expeditious action. As the various Sections, spread in different buildings and over different floors, have several entry-points and there is no proper system of gate-keeping, it is not difficult for the visitors to find their way in. Due to the ineffectiveness of the checking system, visitors also come to the Department throughout the day despite fixed interview hours. Small pockets of crowds inside the enclosures, particularly where the busy Sections are functioning, are a common sight. It has been observed that outside parties, more especially the travel agents, move from desk to desk to chase their cases. In consequence, the operating staff of these vulnerable Sections cannot work with peace and they spend their time mainly in attending to the visitors from morning till late afternoon. Not only the regular

cases get delayed in the process, passports, files and other valuable documents placed on the tables of the dealing assistants and Officers become utterly exposed to the unregulated incomers.

9.5 It has been found on close observation that quite a sizable number of visitors come to the Department merely to make enquiries about the fate

<u>Time-schedule</u>	of their
<u>for processing</u>	applications
<u>of applications</u>	or to get them

expedited. They give various arguments, make persuasions or sometimes, bring pressures through other persons to achieve their ends. Under the present procedure, no time-limits have been fixed, excepting in the case of 'P' Forms/FTS applications, for disposal of cases. This is a serious deficiency, as a result of which sufficient attention is not given by the dealing staff to process the applications within a reasonable time and the members of the public also attempt to have their cases completed irrespective of the date of submission. It is very necessary that some time-schedules should be prescribed, at least for the more common

items, in order to bring an awareness amongst the staff members about the need for timely disposal of applications and to ensure that applicants are able to know the fate of their applications on the expiry of the stipulated period. As in the case of P Form/ FTS applications, tokens may be issued for the applications of the specified categories, indicating the period when the reply will be due. The counterfoils of the tokens will be attached to the concerned applications. These tokens will serve as a guide to the applicants for the purpose of their follow-up action with the Department and will, at the same time, help the dealing staff in keeping a track of the relative papers. Though it is very difficult to indicate precisely any definite period for final disposal of each single application due to various subjectivities, the proposed time-schedule will positively ensure timely handling of the cases in the Department. The Study Team has given considerable thought to this problem and recommends the following time-schedule in respect of the major categories of applications:

Nature of Application	Time for <u>processing</u>
(1) P Form/FTS Applications	3 days
(2) Medical Treatment abroad	2 days
(3) Business Travel	4 days
(4) Participation in Trade Fairs/Exhibitions	2 days
(5) Blanket Permits —	
(i) New Issues	10 days
(ii) Renewals	4 days
(6) Exchange for higher Studies/Training	7 days
(7) Miscellaneous Travel Applications (e.g. Study Tour/Conference/ Specialised Training/ Travel by Journalists)	4 days
(8) J Form for taking out personal jewellery	2 days
(9) Engagement of foreign nationals	4 days
(10) Emigration (with 'No Exchange'/ 'Exchange on Repatriation' basis)	4 days
(11) Transfer of assets of retiring foreign nationals	6 days
(12.) Transfer of legacies, bequests and inheritance	1 month

- | | | |
|------|---|---------|
| (13) | Remittance of surplus
passage/freight
earnings | 1 month |
| (14) | Profits/Dividends
remittances | 15 days |
| (15) | Royalty/Technical
Know-how remittances | 10 days |
| (16) | Miscellaneous
remittances like
Advertisement/
Membership/Examination
Fees, etc. | 4 days |
| (17) | Money changers' licence — | |
| | (i) First Issue | 1 month |
| | (ii) Renewal | 10 days |
| (18) | Applications regarding
operations on Non-
resident Accounts
(including 'External'
Accounts) | 5 days |
| (19) | References in
connection with
foreign currency
accounts/shares | 7 days |
| (20) | Approvals for Joint
ventures/Consultancy/
Construction/Management
Services Contracts. | 8 days |
| (21) | Loans/Overdrafts
applications received
from foreign-controlled
companies. | 7 days |
| (22) | Imports by
Post parcel | 4 days |

(23)	Payment of freight locally for personal baggage	2 days
(24)	Imports into bond	5 days
(25)	Applications from exporters for allotment of code numbers	2 days
(26)	Deferred Payment Exports	10 days
(27)	GR Waiver cases	2 days
(28)	Export of Gold jewellery	2 days
(29)	Remittance of commission on exports	5 days
(30)	Remittances towards claims on exports	3 days
(31)	Extension of time-limit for realisation of export proceeds	7 days
(32)	Reduction in bill amount in respect of exports.	3 days
(33)	Registration of agency agreements.	5 days

NOTE: 'Days' mean clear working days.

9.6 The Enquiry Section should be thoroughly reorganised so that **it** is able to extend

Formation of
Public Relations
Section

meaningful service
to the numerous
customers by

explaining clearly the implications of the regulations and the procedural details. Oftentimes, the visitors do not know how to fill up a prescribed questionnaire or precisely what documents are required to be furnished. Effective assistance can be given only if the Enquiry Section is manned by knowledgeable, experienced, courteous and helpful Officers and clerical staff. Their attitude and performance will greatly determine the image of the Department in the public eye and will otherwise help its working. Not only the officials of the Section should educate the public from the angle of Exchange Control work, but they may directly attend to cases where urgent action is required. For example, if a patient desires to proceed abroad for immediate treatment, the requisite exchange permit may be issued by the Enquiry Section itself, without referring the application to the Travel Section. Similarly,

applications for remittances for the import of life-saving drugs, passage applications of persons who are anxious to undertake travel to meet some seriously ailing relative or for any other emergent reason, applications for release of exchange for higher studies where the academic sessions in the concerned overseas institutions are to commence shortly, applications from intending travellers for issue of jewellery permits, from foreign tourists for reconversion of their unspent rupee balances in foreign exchange, from journalists desirous of covering any international event of immediate significance or any other personal application of urgent nature may be dealt with by the Enquiry Section. This apart, the Section (which should have the overall responsibility for receiving all inward letters and their distribution) may arrange to transmit important and urgent letters immediately to the concerned dealing officials for the purpose of expeditious action. These measures will ensure prompt service in specific areas and will, at the

same time, be helpful in keeping away the visitors or travel agents from the operating staff. It is felt that these objectives can be achieved only if the existing Enquiry Sections are remodelled as a compact Public Relations Section and placed under the charge of competent Exchange Control Officers. These Officers may also attend to the public complaints, on a priority basis, by calling for the relative case papers and/or holding discussions with the dealing officials. In fact, such full-fledged Public Relations Sections are functioning in Trade Control, Customs, Income-tax and other Public Service organisations.

9.7 It is equally important to see that the lounge for the visitors is arranged in a decent

Better
amenities
to be provided

manner with more
sitting space,
better provisions

for writing letters, etc. and also a self-operating public telephone (many visitors seek assistance of the Departmental phones to contact their office, bank or any other outside agencies in connection with their work in the Reserve Bank).

The existing horizontal counters should also be re-structured vertically according to various subjects - P Form applications, FTS applications, Miscellaneous Travel Applications, Export Enquiries, General Enquiries and Receipt and Delivery of Letters. This arrangement for purpose-wise counters will divide the crowd in different groups and the enquirers will be able to get quicker service. These measures are, no doubt, conditioned by the availability of more space where a centralised Public Relations Section may be set up. It may be futile to make attempts for any such basic changes in regard to the counter service so long as the various operating Sections are scattered in different buildings. To reorganise the system, the Bombay Regional Office where most of the visitors come should be housed in one building. (Please also see Chapter XII).

9.8 Though there is an imperative need to reorganise the services at the counter, it has also

Adherence to fixed
visiting hours

to be ensured

that the

visitors do not

have unrestricted access to the Department, as at

present, even after the usual interview hours. If outsiders, particularly travel agents, continue to come beyond the scheduled hours, the work gets much dislocated. Oftentimes, the dealing staff cannot process the normal cases due to this disturbance and in effect, cases of the innocent parties who choose to contact the Department only through letters, get delayed. In the interest of the customers of the latter category, visitors should be persuaded to adhere to the fixed business hours. Where, however, prior appointments have been fixed with any Officer, the concerned visitors can come at the appointed time.

9.9 These internal measures will, no doubt, produce a favourable impact. It is, however,

Publication
of Brochures

considered that
if brochures are
published in simple

and non-technical language in respect of the common items of work with which the public are mostly concerned, the present and potential customers of the Department will get a lasting

benefit. They will be able to understand, on their own, the conditions under which one would be eligible for the specified facilities, the forms/questionnaires to be completed and the requisite documents to be submitted. Such simple brochures will definitely remove many doubts of the average men and will thus reduce their visits to the Department for the purpose of information or clarifications. Two brochures relating to the facilities available to exporters and to students/trainees, published some years back, were found to be quite useful. It is very necessary that these two brochures are updated and a few new brochures, covering subjects like P Form/FTS applications, operations on Non-resident accounts, Travel for Study Tour/Conference/Seminar and other miscellaneous purposes, setting up of Joint Ventures and undertaking Consultancy/Engineering services or Turnkey Projects abroad, Investments in India by Non-residents, are published by the Department at the earliest opportunity and revised from time to time on a regular basis. Since these brochures should be low-priced in the wider public interest, the Bank may have to bear a

substantial portion of the cost of their publication.

9.10 We, therefore, recommend that —

- (1) Time-schedules for the purpose of processing the applications of some specified categories may be prescribed;
- (2) A compact Public Relations Section may be set up;
- (3) Better physical amenities may be provided to the visitors; and
- (4) Low-priced brochures covering some common items of work may be published.

CHAPTER XMAINTENANCE AND DESTRUCTION OF RECORDS

10.1 In an organisation like the Exchange Control Department, where essentially work of secretarial type is performed, the system of record keeping is very important.

Introduction

The records give out precedents, guidelines, statistics and other key information. The Department has, however, developed almost a love for the antiques and amassed huge volumes of files, registers and forms. These records, both old and new, are now overflowing all the record-rooms, racks and almirahs of the Department. They are even piled above the cupboards and scattered helter-skelter on the floors. The system is in a state of utter confusion. The file-registers are not properly maintained in many Sections where such registers are maintained, the files are not arranged serially. It has been noticed that even in a few important Sections (e.g. Travel, Exports, etc.), filing work is pending for months. Considerable time is, therefore, wasted in tracing out the back papers for attending to letters

and applications and occasionally, cases are disposed of, without consulting the previous papers.

10.2 To a great extent, this has happened as a result of the mounting records. The Department is receiving larger number of GR Forms due to extensive export efforts and more returns/statements due to increased number of authorised dealers (number of their branches is also steadily increasing), money-changers, travel agents and airline/shipping companies. There has also been a spurt in P Form/FTS applications and applications for release of exchange on export promotion grounds during the recent years. Even otherwise, the work load has increased generally in other fields. Though the records are multiplying, the storage space has remained constant and even the destruction procedure has not been changed.

10.3 At present, the Department sets up a Special Section every year for a period of six months or so

Working of
Special Section

for attending to
the destruction

of old records. This Section collects the requisite records, which become due for destruction, from the

record-rooms and the operational Sections, examines them in order to take out important papers, obtain orders for destruction and thereafter disposes them of finally. Due to enormous volume, it is not always possible for this ad hoc Section to complete the processing in respect of all the records which become due for destruction. The Section also experiences difficulties in handling the unlisted records. It does not obviously take, nor is normally expected to take, any action for arranging the records systematically or servicing them.

10.4 An efficient record-service contributes directly and proportionately to the efficiency of the Department. It is very necessary to ensure that filing is kept absolutely upto-date. All the files should be

Arrangement of
records

page-numbered
and properly

indexed. Under the present system, the responsibility for filing has been given in each section to a Clerk other than the Clerks who

attend to the correspondence. This practice is not working well. Each Clerk should file the letters dealt with by him at the end of each day. He will know better where to file the letters and which connected letters are to be indexed. In officer-oriented Sections, this work will, no doubt, be done by the supporting clerical staff. Each Section should have an independent File Register wherein brief particulars of the files will be entered as soon as they are opened. To avoid any confusion, the period of preservation may also be indicated on the face of each file and against the relative entry in the register right at the time of its opening. The files should be arranged in a serial order and whenever any file is given to any other Section or transferred to the record-room, suitable remarks may be recorded. For the facility of handling, only current files and registers should be kept in the Section. Where, however, record-rooms are situated in the proximity of the operating Sections, current records may also

be stored there partially or fully. But the current and old records kept in the record-rooms must be arranged Section-wise in an orderly manner, returns/statements, processed GR Forms and registers being stocked period-wise. As the Department is facing acute shortage of space for storing the records, provision for more space for this purpose has become imperative.

10.5 Having regard to the constraint of space and increasing volume of records, it is considered necessary to re-schedule the period of their preservation. All items of

Period of
Preservation to be
re-scheduled

records have to
be closely examined
from this angle.

The Study Team, has, however, examined the more voluminous items and recommends as under :

Description	Present period of preserva- tion	Suggested period of preservation
(1) GR/EP/PP etc. Forms	2 years	1 year (from pro- complete stage)
(2) Short-shipment/ Shut-out Notices (if not dis- continued, as suggested elsewhere)	2 years	-do-
(3) Control Sheets in respect of GR etc. Forms (if not dis- continued, as suggested elsewhere)	2 years	6 months (from the date of scrutiny of the relative export forms)
(4) Code Sheets	3 years	1 year
(5) Statements regarding over- due export bills received from authorised dealers.	3 years	1 year
(6) R returns	2 years	6 months (after final audit)
(7) Other statements received from authorised dealers	3 years	6 months (after consolidation)

Description	Present period of preserva- tion	Suggested period of preservation
(8) 'P' Form applications	3 years	1 year (from the date of compliance with the special conditions, where so pres- cribed, and from the date of approval/rejec- tion in other cases)
(9) FTS applica- tions	-	1 year
(10) Statements regarding passage/ freight collections by airline/ shipping companies and travel agents in India.	3 years	1 year (from the date of approval of remittances in the case of foreign carriers and from the date of scrutiny in the case of Indian carriers/ travel agents).
(11) Statements received from money- changers	3 years	1 year (from the date of scrutiny)
(12) Statements regarding collections and dis- bursements in foreign exchange by Indian shipping companies	3 years	-do-

Description	Present period of preservation	Suggested period of preservation
(13) Statements received from Indian Insurance organisations	3 years	6 months (from the date of scrutiny)

In case any form or document is needed in connection with any court case or special investigation and notice is received within the prescribed period, the relevant forms, etc. may be segregated and filed separately until at least a year has elapsed from the date of completion of the relative case or investigation.

10.6 Despite these measures, quite a sizable volume of records is required to be preserved

Microfilming
of records

permanently in order
to keep a track of

the changes in broad policies and procedures and also of the significant particulars relating to foreign-controlled companies/firms, large Indian business houses, Indian enterprises abroad and even of individuals in areas like remittances of capital/current income, holding of foreign currency assets, etc.

In the context of the present-day volume it is **becoming** increasingly **difficult** to maintain such records systematically on a long-term basis through the mechanism of files and registers. Apart from the risks of loss or misplacement, the constraint of space has come up very much on the way. It is considered that microfilming of these important records may be started on a selective basis. Perhaps, a centralised arrangement in respect of the valuable records of all the Departments in Bombay will be economical and administratively more convenient. Though this will involve some additional capital and recurring expenditure, it may be eventually beneficial if the costs regarding space, periodical servicing and other incidentals are taken into account. It is understood that some leading commercial organisations and a few **State** Governments (e.g. Gujarat Government) have introduced this system. The feasibility of this Scheme may, therefore, be examined separately by the Organisation and Methods Division.

10.7 In order to look after the whole gamut of record-keeping, a permanent Section (with one Staff Officer

Creation of a
permanent
Records Section

two Clerks
and a Peon) may be
created in the

Department (administratively this unit may be linked with the Administration Division). The concerned staff will move from Section to Section to verify whether the files and registers have been indexed, page-numbered and arranged properly and whether the records have all been listed in the appropriate file register. The Section will simultaneously segregate the records for the purpose of destruction and remove them altogether to a separate cage for final disposal in sizable lots. Similarly, the overall charge for maintenance of records in the various record-rooms should be assigned to this Section. It will also be the responsibility of this Section to see that files, registers or forms are not piled on the floors or above the cupboards and that the Department looks neat and tidy in this regard.

10.8 We recommend that -

- (1) The prescribed period of preservation of listed records may be re-scheduled;
- (2) The feasibility of microfilming the selected records may be examined by the Organisation and Methods Division; and
- (3) A permanent Records Section may be created to look after the maintenance and destruction of records.

CHAPTER XITRAINING FACILITIES

11.1 Consequent on the introduction of new statutory provisions for regulating the activities of foreign-controlled companies, implementation of various measures for promotion of export of Indian merchandise and technical know-how, adoption of fresh strategies (including facilities for opening foreign currency accounts in India) for better inflow of funds from non-resident Indians, new orientations in the international financial systems, frequent fluctuations in the exchange rates, recognition of a greater need for prevention of leakage of foreign exchange and other recent developments, the Exchange Control work has become more complex and sophisticated. In order to equip the personnel of the Exchange Control Department to meet these challenges and responsibilities in an intelligent and efficient manner, new training programmes have become imperative.

11.2 Until a few years back, the clerical and supervising staff of the Department in Bombay had a separate seniority and could necessarily develop an expertise in the work of the Control due to their continuous association. Even the complexities were much less than at present. With the introduction of inter-departmental mobility at the junior levels, this benefit of in-built specialisation has gone. Since the principle of combined seniority has now come to stay as a part of the wider personnel policy, new measures are particularly needed to maintain at least a minimum level of efficiency.

11.3 The integrated training programmes presently conducted for the clerical staff at the Zonal Training

Special Induction
Programme

Centres and for the
supervisory staff
at the Staff Training

College cover very broadly the policies and procedures of the Exchange Control work. It has been found on experience that these training programmes, though otherwise useful, are not adequate for equipping the new and inexperienced staff to undertake the actual desk work in the Exchange Control Department. At

the same time, it will not be desirable to inject too many technical **details** of any particular department in such broad-based programmes. These training programme will then be lop-sided and may accordingly fail to create sufficient interest among the various participants. It is, therefore, necessary to introduce an intensive induction programme for the new entrants (on transfer or on recruitment) within the periphery of the Department itself. Since this special programme will have exclusively an Exchange Control bias, this will be conducted mainly by the Officers of the Department. Its coverage may broadly be as under:

- (1) Evolution of Exchange Control in India;
- (2) Provisions of the Foreign Exchange Regulation Act, 1973;
- (3) Organisational set-up of the Department;
- (4) Elucidation of the provisions of the Exchange Control Manual and the Book of Instructions, with particular reference to -

- (a) Monetary areas and prescribed methods of payment;
 - (b) Authorised dealers and money-changers - their broad functions and responsibilities;
 - (c) Provisions relating to imports and exports;
 - (d) Definition of gold and foreign currency - their import and export;
 - (e) Travel facilities -
 - (i) without exchange - 'P' Form/FTS applications;
 - (ii) with exchange - business travel, studies/training, study tour/conference/seminar, medical treatment, pilgrimage, etc.
 - (f) Foreign nationals - engagement, remittance of current income and retirement;
 - (g) Non-resident accounts - bank and personal;
 - (h) Foreign investments in India - remittances of royalty/technical know-how fees and dividends/profits and repatriation of capital;
 - (i) Indian enterprises abroad - Joint Ventures/Consultancy/Engineering Services contracts;
 - (j) Forward exchange facilities;
 - (k) Loans and overdrafts;
 - (l) R returns and other major returns and statements.
- (5) Functional relationship between Exchange Control

and Trade Control/Customs/Foreign Exchange Enforcement Directorate/Ministry of Finance(Department of Economic Affairs);

- (6) Explanations regarding Balance of Trade, Balance of Payments and Foreign Exchange Reserves; and
- (7) Important functions of the international institutions like International Monetary Fund, International Bank for Reconstruction and Development, International Development Association, Asian Development Bank and Asian Clearing Union.

The number of participants for each such course should not exceed 15, comprising of 12 Clerks and 3 Staff Officers. Such smaller groups will ensure better involvement of the trainees and will not also cause any undue strain on the staff-position of the Department. This programme may initially be organised only for the Bombay-based staff and its scope extended gradually to cover the staff of the other Regional Offices also. To make it effective, the course may have a duration of three weeks only.

11.4 The work of the Exchange Control Department is of a specialised nature and is based on

fast-changing rules and regulations. Oftentimes,
Provision for new Officers find
Understudy difficulties to
 adapt themselves

in this Department and become somewhat diffident.
 It will be useful if the Officers, who do not have
 adequate experience in the work of the Control or
 have been away from the Department for about three
 years, are given an understudy time, varying from
 7 to 14 days, before they actually commence their
 work. This system would help the new incumbents
 to familiarise themselves with the pattern of work
 to be handled by them immediately. Facilities for
 understudy are now being provided to the Officer-
 staff in some other departments. It is suggested
 that this procedure may be introduced in the
 Exchange Control Department also.

11.5 The Foreign Exchange Course presently
 conducted in the Bankers' Training College permits
 very limited participation (only one 'B' Grade.

Officer at a time) of the Exchange Control

Special Foreign
Exchange Course.

Department. This
course is also
designed mainly

to cater to the needs of Officers of the commercial banks. A special Foreign Exchange Course of 4 to 6 weeks' duration may be organised to cover exclusively the Officers in Grades 'A' and 'B' attached to the Department. The proposed course may give more emphasis on the problems which are required to be handled from the angle of Exchange Control, though the operations of authorised dealers (and money-changers) in regard to documentary credits and exchange dealings will also have to be covered. It will, no doubt, be necessary to make analytical studies of the provisions of the Foreign Exchange Regulation Act, 1973, and the Rules framed thereunder, Exchange Control Manual/Book of Instructions and Trade Control/Customs Regulations. A few case studies covering some cases actually dealt

with by the Department should also form part of this programme,

11.6 This course will necessarily have to be designed and organised in consultation with the Training Division of the Department of Administration and Personnel. Since the services of Officers of the Central Exchange Control Department/other Central Office Departments and of the leading commercial banks are available more conveniently at Bombay, it may be explored whether this programme may be conducted periodically at the Bankers' Training College.

11.7 The Exchange Control Department undertakes periodical inspection of authorised dealers,

<u>Practical Training</u>	independently or jointly with the
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Department of Banking Operations & Development.

Under the new Foreign Exchange Regulation Act, powers have also been taken to conduct inspection of airline/shipping companies and travel agents. In view of the various intricacies of the relative

operations, it will be helpful if Officers of the Department are given facilities, on a selective basis, to have some practical training in the relative fields as indicated below:

- (1) Officers in Grades 'C' and 'D' should be deputed to any major commercial bank for a period of two weeks to study the working of their Foreign Exchange Department, particularly exchange dealings (including cover operations), handling of GR, etc. export forms, treatment of export/import bills and compilation of returns relating to Exchange Control.
- (2) Officers in Grades 'A' and 'B', connected with inspection of banks, airline/shipping companies and travel agents, may undergo practical training in some medium sized commercial banks (where the range of foreign exchange operations can be appreciated more quickly than in bigger banks), Air India, Shipping Corporation of India/Moghul Line in order to familiarise themselves with the specific aspects which are relevant from the angle of inspection. It will be adequate if the concerned officers are allowed to spend two weeks in each organisation for the purpose of this training.

11.8 The formulation of basic policies and procedures in regard to the administration of Exchange Control depends, to a considerable

extent, on the

Study Tour

first hand know-

ledge of the trends in the leading international

markets (e.g., London, New York, Frankfurt, Zurich, Tokyo) and also the various techniques applied in the developed countries to meet the changing situations. A system of regular link with some well-reputed institutions in the developed countries will be immensely helpful for such objective assessments. It is **felt** that Senior Officers of the Exchange Control Department may be given facilities to undertake study tour for six to eight **weeks** for this purpose. The Officers to be so deputed may generally familiarise themselves with the methodology of work in the selected institutions and particularly, record special reports on specific areas as may be assigned to them by the Department.

11.9 Besides the various organised training programmes, the staff of the Department should be rotated periodically from one **Section** to another.

Rotation of Staff

This rotation will help them getting an overall view of the working of the Department and will thus make the work more meaningful to them.

Though no rigid time-schedule can be drawn for this purpose, it is suggested that the following programme may be generally observed:

<u>Designation</u>	<u>Periodicity</u>
Deputy/Assistant Controllers	2 years
Exchange Control Officers	1½ years
Staff Officers	1 year
Clerical Staff	6 months (on each desk)

11.10 In order to facilitate the work, each Section should be provided with a copy each of the

<u>Codification of Instructions</u>	Exchange Control Manual and Book of Instructions.
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Many **Staff Officers** are not, however, presently having copies of the Manual since the stock of this publication has been exhausted. It is essential that all operating Sections should have copies of these two basic publications for their guidance. There is a general complaint that copies of circular instructions issued from time to time are not also supplied to the dealing staff in time. Non-availability of the circular

instructions also causes constraints for efficient working. It has to be ensured that each Section maintains subject-wise circular files for ready reference and carries out the requisite amendments to the Manual and the Book in order to keep them absolutely up-to-date.

11.11. As the instructions embodied in the Book of Instructions and Central Office circulars do not

Preparation of
Job Cards

precisely indicate
the details to be
performed by each

dealing Clerk/Staff Officer, job specification cards for each item of work may be prepared for their guidance. It is understood that a few major banks (e.g. Bank of India) have already introduced this system and found considerable benefit. The cards will indicate the successive stages of processing of applications and also the register/s where the requisite particulars are to be incorporated. These details will keep the dealing staff always on the right track and will thus reduce the chances of omissions or commissions. Specimens of two job cards

are given at the end of the chapter. It is recommended that such cards may be progressively prepared in the Department in respect of the more common items of work in order to have prompt, accurate and methodical disposal of applications.

11.12 The Department is presently having a skeleton library where only a few books on Economic Principles, Foreign Exchange operations

Well-Stocked
Library

and other allied subjects have been kept. It is

necessary to build up this library properly with newer publications so that the interested staff members may conveniently read, or consult, these books and publications in order to improve their fundamental knowledge. In addition, adequate copies of leading economic journals and periodicals(including dailies), both Indian and foreign, should be kept in the library for the benefit of the general staff. In order to select proper books and periodicals and to

manage the library, a small Committee may be set up in the Department.

11.13. We, therefore, recommend that -

- (1) A short-term special induction programme may be organised in the Exchange Control Department for the new Staff Officers and clerical staff;
- (2) Special Foreign Exchange Course may be organised in the Bankers' Training College exclusively for Grades 'A' and 'B' Officers of the Exchange Control Department;
- (3) Arrangements for practical training in commercial banks, Air-India and the Shipping Corporation of India may be made;
- (4) Facilities for study-tour may be provided to the Senior Officers of the Department; and
- (5) Job specification cards may be prepared for major items of work for the guidance of clerical staff and Staff Officers.

JOB CARD

ANNEXURE XI/1

DIVIDEND REMITTANCES

Activity : Remittance of dividend

Books required : Remittance Form Inward Register

Register for recording details
of remittances approved on
account of dividends, profits,
etc.

Permit outward register.

Forms required : Standard form (used for analysis
of dividend
remittances)

Permit form

<u>Sr.No.</u>	<u>Job Details</u>	<u>Special Instructions</u>
1.	On receipt of applications for remittance of dividends abroad	
	(i) Enter it in the Form inward Register.	
	(ii) Ensure that the application has been received through an authorised dealer, duly supported by remittance Form A/A-7 (in duplicate).	

(v) A certificate from the company's auditors stating that sufficient funds have been set aside to meet all Indian Tax liabilities on the profits of the company.

(vi) A certificate from the company's auditors under Sections 28, 29 and 31 of the FERA, 1973 in the prescribed form.

This certificate is not required in case of companies whose non-resident share-holding is 40 per cent or less.

(vii) A certificate from the company's auditors stating that the dividends have been declared in accordance with the provisions of the Companies (Temporary Restrictions on Dividends) Act, 1974, as amended.

(viii) If there is any transfer of funds from Development Reserves to Profit & Loss Account, an Auditors' certificate etc. may be called for to the effect that the transfer has been made after the prescribed statutory period of retention.

Enter the necessary particulars in the Standard Form(used for analysis of such application).

- (i) Check-up whether the company's borrowings are within the debt-equity ratio of 2:1. If it is in excess of 2:1, it may be ensured that they have obtained Reserve Bank's approval for excess borrowings.
- (ii) Provision for payment of taxes has been made in the accounts.
- (iii) That the dividends have been declared out of the current year's net profits. If any portion of the profits accrued earlier than two years is utilised for remittance of dividends for the current year, the company should be advised to indicate the amount so utilised. In case of dividends declared out of profits made earlier than two years, the applications should be referred to Government through Central Office.

This will not apply to companies whose non-resident shareholdings are 40 per cent or less.

- (a) If the company has incurred any losses during previous years, it should be ensured that those losses have been wiped off before any dividend remittance.
- (b) Reference to Govt. may otherwise be necessary in cases where Govt. have specifically advised the Bank not to allow remittance of dividend without their prior approval.

(iv) In case of 100 per cent foreign-controlled companies, where the dividend has been declared by drawing on reserves, ensure that the following requirements have been fulfilled:

- (a) The reserves have been drawn upon only for the purpose of maintaining the quantum of dividend for the year in question at the average of quantum declared during the preceding five years or at 10 per cent of the paid-up capital, whichever is more;
- (b) The drawal on reserves does not exceed 10 per cent of the total of paid-up capital and free reserves; and
- (c) The balance of free reserves left after the drawal does not fall below 15 per cent of the total of paid-up capital and free reserves.

8. (i) If any of the information/documents cited above is not furnished with the application, it may be called for by issuing an objection memo.

- (ii) On receipt of the reply and after satisfying that the application contains all the information/documents referred to above it may be put up to appropriate authority for approval.
 - (iii) On receipt of orders an intent may be placed for permit forms on security papers.
 - (iv) Prepare a draft of the permit and send it to typing along with permit form.
 - (v) Enter the details of the permit in the appropriate permit register and send the permit for signature.
 - (vi) The permit duly signed should be despatched.
6. (i) Details of dividend remittances approved may be entered in the dividend register. (Register No.(ii) indicated at the top) for preparation of statement.
- Details of remittances approved in respect of individual non-resident share-holding of 25 per cent or more of the concerned company which is not a foreign controlled one (i.e. not having total non-resident share holding in excess of 40 per cent), may not be included in the statement to be sent to Local Co-ordination Section.

(ii) If the remittance approved is Rs. 1 lakh or over the entire case papers alongwith the permit register should be sent to the Deputy Controller for post facto check.

7. File the papers in the relative company's file.
8. A monthly statement of dividend remittances approved should be prepared and forwarded to Local Co-ordination Section.

JOB CARD

ROYALTY REMITTANCE

Activity : Remittances of royalty under collaboration agreements.

Registers required : Collaboration Register (Royalty Payment Register)

(i) details of collaboration agreements approved

(ii) royalty etc. approved periodically.

Daily statistics register regarding royalty etc. approved, for compiling statements.

Register for noting expired agreements.

Register for inwarding applications received through the bank.

Register for outwarding permits.

Register for sending permits for delivery/despatch.

<u>Sr.No.</u>	<u>Job Details</u>	<u>Special instructions</u>
1.	Advices to be received from Ministry of Finance (Department of Economic Affairs) containing	(a) Verify the seal on the forwarding letter received from the Ministry of Finance

(b) At times, Indian party approach Reserve Bank of India for approval before receipt of Govt. advice through Ministry of Finance (Department of Economic Affairs)-
Then

(i) Check with Central Office.

(ii) Further Government letters, if any, amending the terms.

(iii) Copy of final agreement taken on record.

(iv) Government letter accepting the agreement on record.

(v) Check if Government sanction covers only remittance of technical know-how fees.

(c) If they too have not received after a reasonable time, take up matter with Ministry of Finance (Department of Economic Affairs) after verifying that the agreement has been taken on record by Administrative Ministry.

(d) No remittances (even first instalment of lumpsum fee for receiving technical know-how) is to be allowed without sanction from Ministry of Finance (Department of Economic Affairs). Approval cannot be accorded on letters from other Ministry.

(e) If Ministry of Finance have given specific directions to approve single remittance only, ~~for~~ further remittances, if applied for, references to be made to Ministry of Finance before taking any action.

2. Convey approval immediately to Indian party and advise procedure regarding -
 - (i) allotment of shares to over-sees collaborators
 - (ii) remittance of technical fees, royalty etc. and list of documents to be submitted etc.
3. Enter details of collaboration in Register (Royalty Payment Register)
4. Send statement of approval of royalty etc. statement to Central Office and Economic Department (DIF)
5. Documents required for considering applications for remittances of royalty, etc. Application through an authorised dealer supported by -
 - (i) Statement showing how the royalty payable has been computed
 - (ii) Auditor's certificate regarding -
 - (a) verification of the royalty payable

(b) licenced/registered/
approved capacity
and the actual
production;

(c) deduction of landed
cost of imported
components;

(d) deduction of excise
duty from ex-factory
selling price;

(e) if the royalty is
payable on export
sales, only F.O.B.
value is to be
taken into account;

Bank certificate
for export proceeds
need not be insisted;

(f) rate of deduction
of tax and surcharges;

(g) Income-tax authorities'
tax clearance certi-
ficates conveying no
objection to the
remittance of amount;

6. Verify that -

(i) relative collaboration
agreement has been
taken on record :

Need not be insisted,
as a routine, in
respect of collabora-
tion decided prior
to 22nd April 1971,
but check that -

agreement has
actually been
signed.

Raw materials imported
and indigenously
brought components
need not be deducted
from ex-factory
sale value of the
products.

Minimum Royalty -
Verify if Government
has specifically agreed
to it.

Minimum Royalty even
where there is no
production cannot
be claimed.

Validity of agreement -

(i) Indefinite agree-
ments which have
completed 10 years
are to be given
immediate notice
of termination

(a) By now there should
not be any indefinite
agreement as the
matter has been
reviewed time and
again.

(b) Immediate notice of
termination is
required to avoid
further foreign
exchange liability.

(ii) Validity period
should conform
to the terms
stipulated in
Government letter
of approval.

(a) Tendency is to
extend the validity
period for claiming
royalty for
additional years on
the grounds that
it should be
reckoned from -

date of remittance
of first instal-
ment of technical
fee;

- (a) normally, it should be reckoned from date of agreement accepted by Government.
- (b) If Government has stipulated that it should be reckoned from date of commercial production, call for auditors' certificate in support of date of commercial production. from date of Government letter acknowledging acceptance of final acceptance of final copy of agreement.
- (c) Royalty beyond the initial validity period approved by Government is not to be allowed. Any provision of automatic extension in the agreement may be ignored.
10. Income-tax clearance/ 'No Objection' certificate to be insisted for each application.
11. Expiry date of the collaboration agreement. Can be determined at time of first royalty remittance. Party to be advised within six months of the expiry date.
12. In case any document/ information required, send an objection memo to the bank. On resubmission of the application together with the documents -
- (i) If documents are in order, submit the case to the Officer for orders.

It is not materially different from the terms and conditions mentioned in Government's letter of approval.

If relative Government advice has not been received, advise the party that remittance will be allowed only after agreement is taken on record by Government.

- (ii) items manufactured have been authorised by Govt. and the royalty is claimed only upto the maximum limit of licensed/registered/approved capacity and upto 25 per cent in excess thereof.
 - (a) The actual production should be certified by auditors.
 - (b) Production in excess of the limit fixed is unauthorised and no royalty is to be allowed covering the extra production.
- (iii) Landed cost of imported components has been deducted from royalty computed.
 - (a) Landed cost include CIF plus customs Duty etc.
 - (b) Landed cost or foreign exchange cost of imported components not to be deducted in cases approved earlier than 1st January 1969 if -

there is no stipulation for deduction on these account either in Govt. letter of approval or in the final agreement and

agreement has completed a major part of the agreement.

Similarly, if under agreements or otherwise approved prior to 1st January 1969, FOB cost and not landed cost is to be deducted, the cases need not be re-opened if the agreement has completed its full terms or major part of its initial validity period.

In case of extension of agreement, royalty payments during the extended period should be made only after deducting the landed cost of imported components.

(iv) Excise duty is deducted from ex-factory selling price

To be applied in cases where royalty becomes first due after 14th February 1974.

- (ii) After orders have been passed, place permit form
- (iii) Prepare a dummy permit for typing.
- (iv) Check the typed permit and enter the particulars in the permit outward Register.
- (v) Submit the permit with case papers to the Officer for signature after making entry in the daily statistics Register and in expired collaboration agreements Register, if it is the last resource.
- (vi) Segregate the papers, attach the Exchange Control form with the permit and send the permit to Despatch Section after entering in the Depatch Register.
- (vii) In the case remittances beyond Rs.1 lakh, submit the papers to the Deputy Controller for post-facto scrutiny.
- (viii) File the papers in the file maintained for the applicant.

CHAPTER XIIREORGANISATION OF THE DEPARTMENT

12.1 The efficiency of any organisation is conditioned, to a great extent, on the pattern of its set-up, functional arrangements, delegation, accountability, control and also on the lay-out. Introduction

There cannot, however, be uniform standards for all organisations. These will vary from one institution to another and from one time to another, within the same institution, according to the changing needs.

12.2 Each organisation has to be structured and restructured in the light of its experiences and objectives. The Guidelines for Reorganisation reflections of the growing responsibilities of the Exchange Control Department on its Central Office and the Bombay Regional Office have been broadly discussed. Some proposals have been mooted to simplify or rationalise the existing procedures and also to evolve a few new systems. Keeping in

view the existing deficiencies and the new tasks, the Study Team has examined the question of reorganisation of the Bombay establishment. While suggesting changes, the following major points have been taken into account :

- (1) Line of Control;
- (2) Decentralisation of work;
- (3) Realignment of Sections on the basis of functional affinity;
- (4) Objective composition of various Sections - officer-oriented in certain areas;
- (5) Equitable distribution of work at the controlling levels - combination of 'Trade' and 'Personal' cases;
- (6) Strengthening of the supervisory lines; and
- (7) Better customer service.

12.3 In order to remove the existing difficulties for supervision, accountability and control, the

Delinking of
Bombay Office
from Central
Office

delinking of
the Bombay
Regional Office
from Central Office

has become imperative. The Bombay Office should have complete autonomy as in the case of other branches and function under a unitary control within the powers delegated

by Central Office. Like any other branch, this unit should make all references to Central Office by formal letters and forward only the relevant supporting papers (instead of volumes of files) along with such letters. It will also be necessary to indicate precisely in such letters the points on which instructions of Central Office are sought. The Bombay Office should not make any direct references to Government excepting in cases where such authority has been given by Central Office. The proposed separation will help better co-ordination within the various Sections of the Bombay Regional Office and Central Office will also be free to undertake its tasks of policy formulation, review of procedures and planning in the way it should. The suggested pattern of decentralisation has long been adopted by specialised Departments like Agricultural Credit and Banking Operations & Development. The Exchange Control Department will merely fall in line.

12.4 Apart from the separation of the Bombay Regional Office from Central Office, steps may be taken to decentralise the work of the Foreign

Accounts Section. This Section, which now forms an integral part of Central Office, attends to the

Decentralisation
of the work
relating to
Foreign Currency
Assets

work in respect of the
foreign currency
accounts/securities
and immovable

properties held abroad by resident Indian nationals.

In addition, the Section supervises the foreign currency accounts maintained by Indian companies with the equity capital subscribed by their foreign collaborators and also the foreign currency shares issued to Indian companies/firms for their participation in joint ventures abroad. The work relating to the foreign currency accounts maintained by the Indian shipping companies and insurance organisations is, however, directly performed by the Regional Offices for reasons of administrative convenience.

12.5 Earlier, the entire work connected with foreign currency accounts and shares was decentralised. In late sixties, various questions were raised in Parliament and Press in respect of the foreign currency assets of the ex-Rulers. As the records of the Regional

Offices were in a bad shape, the requisite information could not often be relayed to Government speedily and accurately. To meet the situation, the work had to be centralised in 1968. The procedure relating to the individual accounts, which form the bulk of the work, has been much simplified during the last seven years. The special status of the accounts held by the ex-Rulers has gone. The protection in respect of the pre-zero balances has been withdrawn. The instructions have been generally standardised. The main thrust of the Section to-day is to secure the annual returns from the concerned account-holders by issue of reminders, if necessary, and furnish a comprehensive annual statement to Government. There is no special reason why these routine items of work should continue to be done at Central Office level for an indefinite period. On the other hand, the Regional Offices will have particular convenience if they are able to supervise directly the work relating to foreign currency accounts and shares held by companies/firms on account of foreign collaboration or participation in overseas enterprises. The centralisation of work relating to foreign currency accounts has created a

a new problem. Indian nationals resident abroad, desiring to return to India for securing suitable employment or for exploring the possibilities of setting up small-scale industries, are now allowed to retain their foreign currency accounts for a period of three years from the date of their arrival in India. Such returning residents are also given an option to surrender their foreign currency balances immediately on their return and re-transfer the amounts so surrendered in the event of their going back to a foreign country within a period of three years (or within such extended period as may be approved by the Reserve Bank). These relaxations have a popular appeal. Various queries are often received from the returning residents in this regard. Sometimes, outstation parties also travel to Bombay to have various clarifications directly from the operating staff. In fact, the members of the Study Team observed that two persons recently came to Bombay from Trivandrum and Calcutta just to make such on-the-spot enquiries.

12.6 In order to relieve Central Office of the day-to-day burden on account of this item and to

make the connected services more directly available to the public at large, the work of the Foreign Accounts Section may be decentralised. If this proposal is approved, the current instructions in regard to the various categories of foreign currency assets held by individuals/firms/companies will have to be codified and circulated to the Regional Offices for their guidance. After decentralisation, the Regional Offices will be mainly required to watch the receipts of the annual returns, attend to the enquiries from the account-holders and the general public and prepare a consolidated annual statement. Generally, no special technicalities or complications will be involved in this regard.

12.7 Out of 5,435 cases presently handled by the Foreign Accounts Section, 2,477 relate to the Bombay area. Of the rest, nearly 1,000 cases belong to Ahmedabad area and 700 to Calcutta area. The number of cases falling within the jurisdiction of Kanpur, Madras and New Delhi Offices varies between 200 to 500. Bangalore and Cochin will have just a few accounts. The staff that will be rendered

surplus in Central Office consequent on the decentralisation of this Section will be absorbed in the Bombay Regional Office/Central Office against their additional requirements. A small Section with one Staff Officer and a Clerk will function in Central Office to co-ordinate the work done at the Regional Offices. There will be a marginal increase in staff in other Regional Offices (excepting Bangalore and Cochin).

12.8 With the segregation of the Bombay Regional Office from Central Office and decentralisation of the work of the Foreign Accounts Section,

Revised set-up
in Central Office

Central Office will
be in a position
to organise the set-up

in a more methodical manner. At present, the operations and policy are not mostly linked, excepting in the field of 'Exports'. Cases relating to 'Travel' (other than Blanket Exchange Permits) are handled by one Deputy Controller, but the broad policy relating to 'Travel' is framed or reviewed by another Deputy Controller. Similarly, the Deputy Controller holding charge of 'Imports' and miscellaneous

trade payments does not usually look after the policy-aspects of the work. Another Deputy Controller, who mainly attends to the formulation of policies and procedures, hardly deals with any live applications. Even inter-connected items of work have not always been grouped together. Ad hoc applications for travel on export promotion grounds are dealt with by one Senior Officer, whereas applications for issue of Blanket Exchange Permits are put up to another Senior Officer. Cases relating to 'Loans and Overdrafts' to foreign-controlled companies or Indian branches of foreign companies come to one Deputy Controller, but applications for remittances of 'Profits and Dividends' are handled by another. All these anomalies have developed over years due to excessive work-load. As and when any new item of work has come up or there has been any intensive pressure in any area, the duties have been re-distributed amongst the various Sections of Central Office mainly from the angle of tiding over the particular situations.

12.9 In order to systematise the set-up of the Central Exchange Control Department, the Study Team has carefully examined the work-flow from all

Sections. Attempts have been made to distribute the burden, as equitably as possible, keeping in view the complexities, volume and commonness of the items. For example, the work relating to the export of merchandise on one-shot or deferred payment basis, turnkey projects, joint ventures/ consultancy etc. services have all been grouped together and brought under the charge of one Deputy Controller for better co-ordination. Similarly, the work connected with inspection and licensing of authorised dealers/money-changers/ airline and shipping companies/travel agents, consolidation of statistical data from the returns submitted by these agencies, building-up of the management information system and collection/ compilation of data relating to Parliamentary Questions have been combined and placed in a distinct group under another Deputy Controller. The work relating to travel with or without exchange, legacies, various personal remittances, non-resident accounts, foreign collaboration, import trade, oil-finance (this item is presently being done by the Bombay Office, but will be

shifted to Central Office in view of its compactness and importance), special trade agreements, etc. has been spread among three Deputy Controllers. Under the revised arrangements, each Deputy Controller will simultaneously deal with policy and operations relating to his portfolio so that the work becomes more cohesive and purposeful. Despite this integration, there will still be more unspecified areas which cannot be clubbed with any particular group. In fact, these items will also be quite sizable in the context of the present-day developments in the national and international fields. Provision has, therefore, been made for one Deputy Controller in order to undertake all such special studies and to do some developmental work for the Department. As discussed in Chapter XIII, there is a need for one additional Deputy Controller in the Foreign Companies Section in order to meet the heavy arrears.

12.10 The Central Office will thus be broadly divided into eight administrative Divisions on the following lines :

<u>Division</u>	<u>Nature of Cases</u>
I Travel	<ul style="list-style-type: none"> (a) Travel on account of business, medical treatment, study tour, studies/training, conferences and miscellaneous purposes (b) Blanket Permits (c) P Form/FTS applications (d) Jewellery permits for travellers (e) Remittance of surplus fare/freight collections
II Exports and Overseas Enterprises	<ul style="list-style-type: none"> (a) Exports (including barter trade with Afghanistan) (b) Joint ventures (c) Consultancy/Construction/Design Engineering and Management Contracts, etc. (d) Turnkey projects

III Foreign
Investments

- (a) Issue/transfer/sale of shares to/by non-residents
- (b) Investments by non-residents of Indian origin
- (c) Remittances on account of royalty technical know-how fees, etc. to foreign collaborators
- (d) Loans/Overdrafts
- (e) Remittance of profits/dividends
- (f) Foreign Oil companies
- (g) Work relating to Santacruz Electronic Exports Processing Zone
- (h) Miscellaneous trade payments

IV Imports,
Foreign
Assets and
Non-residents

- (a) Imports
- (b) Trade agreements with foreign Governments
- (c) Insurance
- (d) Foreign Currency assets
- (e) Engagement of foreign nationals
- (f) Emigration/Retirement facilities and remittances on account of Legacy/Trust
- (g) Operations on Non-resident accounts (Personal)
- (h) Foreign advertisements
- (i) Miscellaneous personal remittances

- | | | |
|----|---|--|
| V | Licensing,
Inspection
and
Statistics | <ul style="list-style-type: none"> (a) Statistics (including exports statistics) (b) Management Information System (c) Parliamentary Questions (d) Opening of offices abroad by authorised dealers (e) Licensing of authorised dealers, airline/shipping companies/travel agents, money-changers (f) Follow-up action on Inspection Reports on authorised dealers/money changers/airline/shipping companies/travel agents received from Regional Offices (g) Liaison with the Foreign Exchange Dealers' Association (h) Exchange Rates |
| VI | Foreign
Companies | <ul style="list-style-type: none"> (a) Administration of new provisions of the Foreign Exchange Regulation Act, 1973, in regard to the activities of foreign companies/firms/individuals (b) Use of foreign Trade Marks |

- | | |
|---|--|
| VII Planning
and
Special
Studies | <ul style="list-style-type: none"> (a) Special studies (b) Training of staff (c) Exchange Control
Advisory Council
(vide Chapter XIV) (d) Amendments to Foreign
Exchange Regulation
Act and issue of
Notifications (e) Publication of book-
lets on topical
subjects (f) Issue of amendment
slips for Exchange
Control Manual/Book
of Instructions |
| VIII Administration | Work relating to Staff
and Establishment -
Both Central Office and
Bombay Regional Office |

The Foreign Companies Division will have two Deputy Controllers (one on ad hoc basis for two years) and all other Divisions (excepting Administration Division) will each be headed by a Deputy Controller. The Administration Division will continue to function under an Administrative Officer. All these Officers holding charge of the respective Division will report to the Controller/Additional Controller/Joint Controller. Although the overall charge of the

Department will be held by the Controller, Additional Controller and Joint Controller may directly mark their cases to the Deputy Governor, where necessary, and also make references to Government independently.

12.11 As in Central Office, the operating Sections of the Bombay Regional Office have been re-aligned

Revised Set-up
in Bombay Office

with a view to bringing the allied items of work together. For example,

the work relating to the issue, transfer and sale of shares to/by foreign collaborators, Indianisation of local branches of foreign companies or repatriation of their capital, remittance of dividends/profits and grant of loans and overdrafts to foreign-controlled companies/firms has been placed under the charge of one Exchange Control Officer. This arrangement will not only facilitate quicker disposal of applications for remittance of dividends/profits by having easy access to the relative records, but also help compilation of data relating to remittances on account of royalty, technical know-how fees, disinvestment of shares, etc. Similarly, the Section which deals with the remittance of surplus fare/freight

collections by foreign airline/shipping companies has been brought closer to the Sections attending to P Form/FTS applications for the convenience of scrutiny of the relative statements. The work relating to the issue of licences for export of jewellery, precious stones and coins for commercial purposes has been shifted from 'Imports' Section to 'Exports' Section in order to make the follow-up work regarding realisation of export proceeds more convenient.

12.12 This apart, a new trend of combining some items of work relating to the 'Personal' side with the items of work relating to the 'Trade' side has been set in. The intention behind this arrangement is that the items of work with which the public are more directly concerned are distributed over different Sections, in order to ensure speedy disposal. Independent Sections will be set up in the Bombay Regional Office to take full charge of the work connected with joint ventures, consultancy services, turnkey projects, etc. and to conduct regular inspection of authorised dealers, money_changers, etc. In order to intensify the follow-up work, 'Exports and Statistical' Sections

have been restructured suitably. In the process of re-organisation, some of the existing Sections (e.g. Audit Section and Securities Section) have been disbanded and the work of these Sections has been merged elsewhere. At present, the work relating to the booking, extension and cancellation of Forward Exchange Contracts is mainly centralised in one Section (Oil Finance). Since centralisation of this important item is not working well, it is intended that all applications in respect of the Forward Exchange Contracts should be dealt with by the various Sections according to the nature of transactions (viz. export, import, remittance of freight/fare collections, loan repayment, etc.) with which the particular contracts are aligned.

12.13 Provision has also been made to make certain Sections (dealing with travel/students' applications, applications for remittance of surplus freight/fare collections by foreign carriers, applications for remittance of profits/dividends by foreign-controlled companies and Indian branches of foreign companies, etc.) officer-oriented. Under this arrangement, applications can be processed

by the concerned Staff Officers themselves with utmost expedition with marginal assistance from the clerical staff in regard to the putting up of case papers, issue of permits, maintenance of records, compilation of data, etc. (This system is already in vogue in Passage/FTS Sections in the Bombay Office and in the Central Office Sections and is working well).

12.14 With these objectives, the work of the Bombay Office has been broadly divided into five Groups as under :

<u>Group</u>	<u>Nature of Cases</u>
I	Business travel, Blanket Exchange Permits, Travel for Medical treatment, Study Tour, Travel for miscellaneous purposes, Higher studies and training, Insurance, Non-resident accounts (Personal) and Miscellaneous Trade Remittances.
II	Collaboration agreements, Issue/transfer/sale of shares to non-residents, Remittance of Profits/Dividends, Loans/Overdrafts and Foreign Currency Assets.
III	P Forms/FTS applications, Engagement of foreign nationals, Recurring remittance facilities, Emigration/Retirement facilities, Legacy & Trust remittances, Miscellaneous Personal remittances, Remittances of surplus passage/freight collections, Scrutiny of statements received from Air India/Travel Agents regarding booking of foreign passages.

- | | |
|----|---|
| IV | Imports, Exchange facilities to Indian Shipping Companies, Licensing of Money-changers, Airline/Shipping companies, Travel Agents, etc., Inspection of Authorised Dealers, Money-changers and Statistics. |
| V | Exports, Joint Ventures, Turn-key projects, Consultancy/Construction etc. contracts and the connected follow-up work. |

Each Group will be headed by an Assistant Controller and down the line, the operating staff will be reporting to only one Officer. Since the staff of each Group will be placed exclusively under the charge of one Assistant Controller, he will be free to make suitable adjustments according to the changing volume of work in the Sections under his jurisdiction. It will also be convenient for the Management to fix the responsibility relating to the working of the various Sections.

12.15 In addition to these operating Sections, it has been proposed that a full-fledged Public Relations Section with two Exchange Control Officers may be organised in order to extend better customer service by processing directly the urgent cases, catering information in a better manner, attending to the various complaints and streamlining

the procedure for receipt/distribution of inward letters and delivery of exchange permits, etc.

12.16 As in the Calcutta Office, the Bombay Regional Office will be headed by a Joint Controller who will be directly assisted by a Deputy Controller. The Assistant Controllers holding charge of the various administrative Groups will report either to the Joint Controller or Deputy Controller directly according to their respective line of control. Although the Joint Controller will hold the overall charge of the Office, it is the intention that the Deputy Controller should make references to Central Office or Government, where necessary, independently in respect of the areas placed under his charge. The Public Relations Section may, however, be directly attached to the Joint Controller.

12.17 While implementing these changes, it will be necessary to augment the staff-strength, mainly for

<u>Staff Requirements</u>	the Bombay Regional Office.
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Unfortunately, the Study Team has not been able to mobilise adequate data for this purpose. It has been mentioned elsewhere that the work relating to collection and compilation of statistics is extremely

unsatisfactory in the Department. Even the inward letters are not properly diarised in all Sections. Due to this constraint, the members of the Team have spent considerable time in going round the various Sections and observing closely the process of working at the different desks. Almost all Sections, particularly Exports, Statistics, TSP (dealing with Indian shipping companies) and OPL (dealing, inter alia, with cases relating to overseas offices of Indian companies, joint ventures/consultancy, etc. contracts abroad), are lagging heavily in respect of the follow-up work. There is also delay in disposal of applications in many Sections. As these deficiencies have been contributed, to a great extent, by shortage of staff, the Study Team strongly feels that sanction of some additional staff is essential. Unless, however, there is a reshuffling of the organisational set-up, mere sanction of additional staff will not be fruitful. In fact, the requirement of additional staff will be too high if attempts are made to trim the entire range of work within the existing arrangements.

12.18 It has been observed that maximum pressure of work rests on the Exchange Control Officers and Staff Officers. In many areas, these Officers are required to initiate cases at their level. It is not possible for many of them to spare any time to keep effective supervision on the assistants working with them, to see whether the follow-up action is being taken appropriately or to ensure that all letters/applications received in their respective Sections are being processed within a reasonable time. Attempts have, therefore, been made to strengthen the supervisory lines suitably in order to organise the work in an efficient manner. Unless the requisite number of Exchange Control Officers and Staff Officers are sanctioned, the proposal for making some Sections officer-oriented will not fructify. This will also lead to a widening demand for clerical staff. Taking an objective view from the angle of output and also the cost of maintaining Officers in 'A' and 'B' Grades vis-a-vis clerical staff, the Study Team has assessed the requirement of Officers of these categories. It is anticipated with reasonable confidence that with the suggested reorganisation and sanction of additional

Officers at the supervisory level, the Sections will be more accountable and action-oriented.

12.19 Consequent on the increase in the administrative work, the Staff and Establishment Section has been facing continuous pressures. The total staff (including Leave and Trainee Reserves) of the Bombay Office and Central Office is now 711 and the number will increase further in the event of acceptance of the recommendations of the Study Team. The administrative problems are also further accentuated on account of the spread of the Department in three buildings. In order to afford necessary relief to the Administrative Officer, a post of Assistant Accounts Officer may be sanctioned. Having regard to the staff-strength of the Economic Department or comparable Specialised Departments, this recommendation would appear to be quite reasonable.

12.20 It has been suggested (vide Chapter IV) that the Exports Section of the Bombay Regional Office should be restructured under a scheme of decentralisation. With regard to the exports covered by GR Forms, 12 Sub-sections have been proposed. Each such Sub-section will generally have a complement of 1 Staff Officer, 4 Clerks and 1 Duftry. The Sub-sections presently attached to

the Central Exports Section for attending to the exports to Afghanistan and export of 'Films' and a portion of the group attending to the follow-up work in respect of the major outstanding cases (only a small portion will remain in Central Office to co-ordinate and oversee the follow-up action in the Regional Offices) will be transferred to the Bombay Regional Office. In order to implement the re-organised system of working, there will be a net increase of 1 Staff Officer, 22 Clerks and 2 Class IV staff for the Exports Section (including Coding Sub-section) as a whole. These staff members will, however, be needed exclusively for attending to the current cases.

12.21 As already mentioned, one Officer of the Department of Statistics is attached to the Statistical Section in the Bombay Regional Office. The primary intention for posting such an Officer is to co-ordinate and conduct the statistical work of the Department in a better manner. The Study Team has closely observed that from the statistical angle, coding of data and compilation of statements form the main work. Code numbers are pre-determined. All that is necessary is to pick up the correct codes for

the various data and note them correctly and **speedily** in the prescribed forms. Hardly, any technical advice is necessary on a day-to-day basis. Although the present incumbent is an industrious and conscientious Officer, he has got obvious difficulties to assist the Department from the Exchange Control viewpoint. It is felt that if Officers with adequate background of Exchange Control work are posted in place of the Officers from the Department of Statistics, they will be able to supervise the coding work and also look after some aspects of the Exchange Control work. It is, therefore, suggested that these Officers may be replaced by regular Exchange Control Officers.

12.22 According to the present arrangements for preliminary audit of R returns, 4 Staff Officers, 3 Clerks Grade II and 1 Peon of the Special Audit Cell are attached to the

Inspection Department. Since the Study Team has suggested integration of this crash audit with regular audit and to place the entire audit work directly under the administrative control of the Exchange Control Department, these staff members may be linked to the Bombay Regional Office.

12.23 Taking into account all factors and making necessary adjustments of the surplus staff due to decentralisation of the work of the Foreign Accounts Section, the Study Team recommends that an extra complement of 61 staff members of different categories (excluding Leave/Trainee Reserves) may be sanctioned for the combined strength of the Bombay Regional Office and Central Office. A statement showing the details of the present and proposed

staff-strength is given below :

Staff Position *

Categories	Present	Proposed staff-strength		Increase	
	Staff- strength (as on 30-8-75)	Bombay Regional Office	Central Office	Total (3)+(4)	(5)-(2)
(1)	(2)	(3)	(4)	(5)	(6)
(1) Controller	1	-	1	1	-
(2) Addl. Controller	1	-	1	1	-
(3) Jt. Controller	1	1	1	2	1
(4) Dy. Controller	6	1	8	9	3
(5) Asst. Controller	6	5	2	7	1
(6) Admn. Officer	1	-	1	1	-
(7) EC. Officer/AAO	28**	19	18	37	9
(8) Staff Officer Grade II	109+) 4@)	69+) 4@)	51	124	11
(9) Clerk Gr. I	166	126	57	183	17
(10) Clerk Gr. II	146+) 3@)	113+) 3@)	39	155	6
(11) Personal Asst.	1	-	1	1	-
(12) Steno Gr. I	2	1	2	3	1
(13) Steno Gr. II	11	3	11	14	3
(14) Typist	44	25	20	45	1
(15) Comptist	1	-	1	1	-
(16) Subhedar Gr. II	1	-	1	1	-
(17) Record Clerk	5	4	1	5	-
(18) Gestetner Operator	1	-	1	1	-
(19) Duftry	41	32	11	43	2
(20) Peon	67+) 1@)	40+) 1@)	33	74	6
Total	647	447	261	708	61

* Does not include Leave/Trainee Reserves.

Includes two Officers in Grade 'D' and
2 Stenographers Grade II recently sanctioned
on ad hoc basis.

** Includes one Officer of the Department of Statistics.

@ 4 Staff Officers Gr.II, 3 Clerks Gr.II and 1 Peon for Preliminary Audit Cell attached to the Inspection Department will be absorbed in ECD, Bombay.

12.24 Two charts showing the proposed organisational set-up, allocation of duties, flow of work and

Charts of the
Reorganised
Set-up

staff-strength
of each Division/
Group, for

Central Office and the Bombay Regional Office of the Exchange Control Department are attached to this chapter.

12.25 It has been assessed that the additional cost on account of the proposed increase in staff-strength will come to about Rs.12 lakhs in a year.

Cost for
Additional
Staff

The Budget allocation,
under the head
'Establishment',

for the Exchange Control Department for the year 1975-76 is Rs.2.72 crores. Even though the allocation for the current year is less than the actual expenditure during the previous year (Rs.2.74 crores), it is hoped that with the present

economy drive, there will be a margin to take care of at least a part of the additional expenditure. Assuming that no such surplus is available, the deficit will amount to about 4.4 per cent of the present allotment. The Study Team feels that in the interest of this important wing of the Bank, provision for this extra expenditure may be made by according a supplementary sanction, if necessary, in due course.

1.26 Although for reasons of administrative convenience, the salary etc. bills in respect of the

<u>Deployment of Staff</u>	staff of the Bombay Regional Office
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will continue to be prepared by the Administrative Division of Central Office, it has to be ensured that the deployment of staff within the Regional Office is left exclusively to the decision of the concerned Joint Controller. Once any staff member is posted to the branch, he should not ordinarily be disturbed within a year. Too many changes between the Regional Office and Central Office will dislocate the work at both the ends.

12.27 It has been emphasized that acute shortage of space is a severe constraint for the Department.

Location
and Lay-out

The Premises Department
has already been
requested by the

Central Exchange Control Department to allot the entire Ritz Hotel Building (which, it is understood, is being taken by the Bank) to meet the additional space-need of the Department. The Department will, no doubt, surrender some space in lieu of this allotment in order to have a compact accommodation. It is suggested that the Bombay Regional Office may be housed exclusively in the proposed new premises and Central Office Divisions in Amar Building. In view of the fact that many distinguished visitors come, sometimes in groups, to meet the Senior Officers, they should have more space in their cabin. On the same ground, each Assistant Controller should be provided with a separate cabin. More space is also necessary for the Enquiry Sections in order to mitigate the hardship of the visitors. The Study Team recommends

that the entire Ritz Hotel Building may be allotted to the Exchange Control Department. The actual lay-out for the operating Sections and cabins for the Officers at the controlling level may, however, be drawn by the Premises Department in consultation with the Exchange Control Department.

12.28 We recommend that —

- (1) The Bombay Regional Office may be delinked from Central Office;
- (2) The work of the Foreign Accounts Section may be decentralised;
- (3) Central Office and the Bombay Regional Office may be reorganised as indicated;
- (4) Additional staff, as suggested, may be sanctioned for Central Office and the Bombay Regional Office; and
- (5) More space may be provided to the Department — the Bombay Regional Office may be housed in Ritz Hotel Building, when acquired, and Central Office in Amar Building.

CHAPTER XIIIADMINISTRATION OF FERA IN RELATION TO
FOREIGN COMPANIES

13.1 The Foreign Exchange Regulation Act, 1973, which came into force from 1st January 1974, has introduced certain new provisions with a view to

<u>New provisions of FERA 1973</u>	regulating the trading, commercial
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and industrial activities of foreign-controlled companies (including branches of foreign companies) and foreign nationals as well as acquisition of business undertakings, and holding of shares in Indian companies by such companies/persons and controlling the acquisition/holding of immovable properties in India by such companies/persons.

These provisions are contained in Sections 28, 29 and 31 of the Act. The work relating to administration of these provisions is centralised in the Central Exchange Control Department.

13.2 Section 28 of the Act seeks to regulate —

(1) acceptance of appointments by persons resident

<u>Section 28</u>	abroad, foreign citizens resident
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in India, companies (other than banking companies)

incorporated outside India and Indian companies in which non-resident interest is more than forty per cent, as agents or technical/management advisers in India of any person or company; and

(2) use of foreign companies' trade marks by others for any direct or indirect consideration.

The provisions of this Section are applicable both prospectively and retrospectively.

13.3 In terms of the policy decision taken by Government, foreign companies have been asked to discontinue to act as general insurance agents. It has also been decided that the existing agencies for sale of products of Indian companies abroad and those for sale of products of foreign companies in India, which involve rendering of after-sales service etc. by the agency company, may be permitted by the Reserve Bank, while applications involving new agencies are to be disposed of in consultation with Government. Applications from overseas collaborators for permission to render technical advisory services under collaboration agreements approved by Government during the period 1st January 1964 to 31st December 1968 are required to be scrutinised in detail and decided on merits in consulta-

tion with Government, where necessary. Where, however, the technical advice is rendered under collaboration agreements approved by Government after 1st January 1969, the applications will be formally approved by the Bank. With regard to the use of foreign trade marks, general permission has been granted in cases where foreign trade marks are used solely in respect of goods exported outside India. A decision has also been taken to grant general permission in cases where foreign trade marks are used on certain essential articles like life-saving drugs. Cases which require Bank's specific permission for the use of foreign brand names are being considered by the Bank in consultation with the Controller-General of Patents, Designs and Trade Marks. Where there is a difference of opinion between the Controller-General and the Bank or where the annual outgo of foreign exchange on account of use of foreign trade mark(s) is more than Rs.1 lakh, a reference will be made to the Ministry of Finance.

13.4 The position regarding disposal of the applications received in the Bank under Section 28

of the Act as on 31st August 1975 is given below :

Description	Number of Applications			
	Received	Scru- tini- sed	To be scrut- inised	Finally disposed of
(1) Trading/ Commercial agencies	715	112	603	107
(2) Appointments as Technical/ Management Advisers	315	84	231	23
(3) Use of foreign trade marks	388	147	241	12
Total	1,418	343	1,075	142

13.5 Section 29 of the Act seeks to regulate the following activities of persons resident abroad,

foreign citizens
resident in India,

Section 29

companies (other than banking companies) incorporated outside India and Indian companies in which the non-resident interest is more than forty per cent —

- (1) carrying on in India of any activity of a trading, commercial or industrial nature;
- (2) opening of branches/offices in India;
- (3) acquisition of the whole or part of any business undertaking in India;
- (4) purchase of shares in Indian companies; and
- (5) holding of shares in Indian companies.

The provisions of this Section are also applicable both prospectively and retrospectively. Once the companies have applied to the Bank, they can continue to carry on their activities till the Reserve Bank's decision is conveyed to them. If the Reserve Bank decides not to give permission, the concerned company has to be given reasonable opportunity to represent against the decision. The company can carry on business for three months after its application has been finally turned down by the Bank. In giving its approval for continuance, the Bank can impose conditions such as dilution of foreign participation to a specified extent within a specified period.

13.6 Government have authorised the Bank to finally deal with applications of companies engaged in the manufacture of items covered by Appendix I of the Industrial Licensing Policy, 1973 (other than drugs and pharmaceuticals), and tea plantation activities. All other applications from companies are required to be referred to Government. These applications are considered by a Special Committee known as "FERA Advisory Committee".

13.7 It has been recently decided by Government that Iranian and Afghan nationals who had entered India

before 1st January 1955 may be freely permitted to continue to undertake their existing business activities.' For those who came to India later, necessary permission may be given by the Bank on a case-to-case basis in consultation with the Ministry of Home Affairs. It is, however, understood that the Ministry of Home Affairs have raised some doubts about their role in this regard and a reference is being made to the Ministry of Finance. Guidelines for disposal of applications from other foreign nationals of non-Indian origin have not yet been finalised.

13.8 The position regarding disposal of the applications received in the Bank under Section 29 of the Act as on 31st August 1975 is given below :

<u>Description</u>	<u>Number of Applications</u>			
	<u>Received</u>	<u>Scru- tini- sed</u>	<u>To be Scruti- nised</u>	<u>Finally disposed of</u>
(1) Carrying on activities—				
(a) Applications from foreign companies	921	915	6	179
(b) Applications from individuals/firms	1,239	612	627	52
(2) Purchase of rupee shares	227	218	9	154
(3) Continuing to hold shares	5,939	4,737	1,202	2,772
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Total	8,326	6,482	1,844	3,157
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13.9 Section 31 of the Act lays down that foreign nationals and companies incorporated outside India

Section 31 (other than banking companies) as well as

Indian companies in which the non-resident interest is more than forty per cent require permission of the Reserve Bank for acquiring, holding or disposing of immovable properties in India. Like the provisions of Sections 28 and 29, the provisions of Section 31 are also applicable both prospectively and retrospectively.

13.10 General permission has been granted to foreign companies to acquire immovable properties which are necessary for carrying on their approved trading, industrial etc. activities. Purchase of immovable properties by foreign nationals of non-Indian origin for residential purposes is generally not allowed, but foreign-controlled companies with permission to carry on industrial activity in India would be allowed to acquire housing for their employees. Foreign nationals of Indian origin are normally permitted to acquire only one immovable property in each case for residential purposes.

13.11 In many cases, applications received under Section 31 of the Act for acquiring or disposing of immovable properties are required to be referred to the Income-tax authorities for advice on fair valuation. Moreover, in the case of sale of immovable properties by foreign nationals or foreign companies, applications are referred to Government for advice as it involves remittance of sale proceeds in foreign exchange. Similarly, applications for sale of tea or coffee estates owned by foreign nationals or foreign companies have to be referred to Government/Tea Board for advice for determining fair valuation. All applications received under the Section are required to be disposed of within 90 days from the date of the receipt — otherwise, the required permission would be deemed to have been granted even though a decision may eventually be taken to reject any application. The question of extending the time for disposal of applications upto 120 or 150 days is now under consideration.

13.12 The position regarding disposal of applications/declarations received in the Bank under

Section 31 of the Act as on 31st August 1975 is given below :

<u>Description</u>	<u>Number of Applications/Declarations</u>			
	<u>Received</u>	<u>Scruti- nised</u>	<u>To be Scruti- nised</u>	<u>Finally disposed of</u>
(1) Acquisition/ disposal of immovable properties	1,504	1,496	8	1,334
(2) Declaration of immovable properties	11,460	11,460	-	8,420
Total	12,964	12,956	8	9,754

13.13 In order to deal with the applications received under Sections 28, 29 and 31 and the policy matters arising out of administration of various provisions of

the Foreign Exchange

Sectional set-up

Regulation Act, 1973,

a new Section called "Foreign Companies Section" was set up in the Central Exchange Control Department in January 1974. The Section is under the charge of a Deputy Controller and he is assisted by an Assistant Controller. With a view to expediting the disposal of applications, the Deputy Controller and the Assistant Controller are dealing with cases and are generally reporting to the Additional

Controller independently. In view of the complexities involved in examining the applications received in the Foreign Companies Section, the Section has been made officer-oriented - the work in the Section is initiated at the level of Staff Officer and in some cases, at the level of Exchange Control Officer. Clerical assistance has been provided for maintaining the records, inwarding and outwarding of letters, etc. The Chart given at the end of this chapter shows the sanctioned strength of the Section and the work-distribution among the Officer-staff. All the posts have been sanctioned to the Section upto the end of December 1975.

13.14 The work which is being handled in the Foreign
Companies Section
Projection may be divided

into two categories as under :

- (1) Applications for permission to continue to carry on existing business activities or agencies and to hold immovable properties and shares in Indian companies.
- (2) Applications for expansion/diversification of business activities, establishment of new offices/branches in India, acceptance of new agencies, appointments as management/technical advisers, use of foreign trade marks, purchase and sale of immovable properties or purchase of shares in Indian companies, and acquisition of business undertakings.

13.15 The work relating to item. (i) of the preceding paragraph is of an ad hoc nature and will continue till the disposal of all the applications received under Sections 28, 29 and 31 of the Act. While most of the applications seeking permission to continue to hold immovable properties have been scrutinised/disposed of, much is yet to be done in respect of the applications regarding permission to continue with existing business activities and to hold the existing agencies, appointments as technical/management advisers, etc.

13.16 The procedure involved in disposal of applications for permission for carrying on existing business activities is rather long-drawn. Such applications are initially scrutinised in the Bank. The requisite particulars and the Bank's comments are thereafter embodied in a prescribed form and forwarded to the Ministry of Finance, Ministry of Industry or Ministry of Commerce, as the case may be, for submission to the FERA Advisory

Committee for consideration. The recommendations of the FERA Advisory Committee are communicated to the Bank in the form of minutes of the meeting. The decisions of the FERA Advisory Committee take either of the two forms -

- (1) the company may be allowed to continue with the existing non-resident interest, or
- (2) the company may be required to dilute the non-resident interest to a specified level.

While in the former case, the company will be issued the approval letter straightway, in the latter case, the concerned company will be issued a letter of intent conveying the Bank's intention to approve the application subject to certain conditions. In the case of branches of foreign companies, final advice is issued, on receipt of their reply, giving one/two years' time to arrange for involvement of Indian capital upto the specified extent and calling for a scheme indicating the details as to how the re-structuring of capital will be effected. The scheme, which has to be submitted by the company within three months, is examined in the Bank, but the decision may have to be taken in consultation with Government in

certain cases. After the decision has been conveyed, the implementation thereof is watched through the **quarterly** reports. In the case of Indian subsidiaries of foreign companies, the Bank's final approval is conveyed to the companies after the scheme of dilution of foreign capital has been approved by the Bank or Government, as the case may be, and the concerned companies are given one/two years' time thereafter to implement the proposed dilution. Once the company dilutes its non-resident interest to forty per cent or less, it will go out of the purview of the new provisions of the Foreign Exchange Regulation Act. On the basis of decisions taken on the company's application for permission to carry on the existing business activities, the applications for continuing to act as agents of companies in India and to hold shares in it by corporate bodies will be disposed of. In any case, applications from corporate bodies for permission to continue to act as technical/

management advisers are required to be referred to Government.

13.17 The disposal of applications received in the Foreign Companies Section has not perhaps been as prompt as it should have been. The activities of foreign companies in India have come up for discussion in Parliament off and on and **several** restrictions on foreign companies have been imposed under the FERA 1973, only as a result of these discussions.

Criticism has already been voiced in the Press and Parliament against the slow pace of disposal of applications made by foreign companies to the Reserve Bank. Accordingly, it has to be ensured that the applications received under the new provisions of the Act are not unduly delayed. Now that the broad guidelines have been finalised by Government, it should be possible for the Section to dispose of all the pending applications as early as possible. It is, however, difficult to assess precisely the period required for disposal of all the pending applications received under Sections 28 and 29 of the Act. Based on the past experience, it is estimated on a rough basis that it may take about two years

before all the applications are finally disposed of - the first phase of work (i.e. issue of final approvals) may take about one year and the second phase (i.e. dilution of non-resident interest) may take about two years. Where a period of two years is allowed for dilution from the date of the Bank's approval, the ultimate disposal of such cases will require still a longer period. If **for** some bonafide reasons, the companies concerned are unable to reduce non-resident interest upto the required level within the prescribed time limit, it may be necessary to extend the dilution period and this, in turn, would delay the final disposal of these cases.

13.18 There is another factor. Even after Indianisation of most of the existing foreign-controlled companies, there will still be some companies in respect of which non-resident interest beyond forty per cent will be allowed to continue. In terms of the guidelines issued by Government for administration of Section 29 of the Act, foreign equity participation in

excess of forty per cent will be permitted in respect of companies engaged in the following activities :

- (1) Production of 'core-sector' items specified in Appendix I of the Industrial Licensing Policy, 1973;
- (2) Predominantly export-oriented industry(i.e. where exports represent at least sixty per cent of annual production);
- (3) Manufacturing activities requiring sophisticated technology, not available indigenously;
- (4) Companies providing consultancy services, etc. in fields which require specialised skills/know-how, not available indigenously;and
- (5) Tea plantation activities.

The exact number of companies which will fall under this category cannot be given precisely at this stage. It is roughly estimated that about 250 to 300 companies will fall under the above categories and will be permitted to retain non-resident interest in excess of forty per cent. Besides these companies, a number of foreign airline/shipping companies and other companies incorporated abroad will be allowed to continue their branch offices and liaison offices in India.

13.19 In order to deal with the activities of these companies and the types of cases referred to in item (ii) of paragraph 13.14, it will perhaps be necessary

to retain the Foreign Companies Section on a long-term basis with a limited complement of staff. The work devolving on this Section cannot generally be delegated to the Regional Offices, as the Bank has to keep constant liaison with Government in these matters. Steps are, however, being taken to delegate powers to the Regional Offices to deal with applications received from persons of Indian nationality or origin for purchase of Rupee shares. Offices are already dealing with applications from Non-residents of Indian nationality or origin for investments in public/private limited companies and partnership and proprietorship cases under the powers delegated to them.

13.20 Considering the nature and volume of work involved and having regard to the number of applications still pending, it is recommended that the entire staff sanctioned to the Foreign Companies Section may be allowed to continue for a further period of two years

i.e. upto 31st December 1977. This will avoid unnecessary references to the Department of Administration and Personnel for extending the period of sanction for the staff of the Section every now and then. As processing of the applications in the Foreign Companies Section has now to be expedited and since there is absolutely no further scope for assuming any further work load by the existing Deputy Controller who is acutely hard-pressed, it is recommended that one additional post of Deputy Controller may be sanctioned purely on an ad hoc basis till the end of December 1977. An overall review of the working of this **Special** Section may be made at that time.

13.21 The duties among the two Deputy Controllers and the Assistant Controller in the Foreign Companies Section may be distributed as under:-

- Deputy Controller I - (1) Foreign Companies - carrying on activities.
- (2) Liaison with Government on pending matters regarding the Foreign Exchange Regulation Act, 1973, and formulation of policy in regard to Sections 28, 29 and 31.

- Deputy Controller II - (1) Individuals and firms-
carrying on activities.
- (2) Acceptance of trading/
commercial agencies.
- (3) Appointments as
technical/management
advisers.
- (4) Use of trade marks.

- Assistant Controller - (1) Purchase of Rupee
shares.
- (2) Holding of Rupee
shares.
- (3) Acquisition/disposal
of immovable properties.
- (4) Declaration of
'immovable properties.

The Deputy Controllers and the Assistant Controller may independently examine and put up the cases to the Additional Controller excepting that cases relating to purchase and holding of Rupee shares may be put up by the Assistant Controller to the Deputy Controller II.

13.22 We recommend that -

- (1) The entire staff strength of the Foreign Companies Section may be allowed to continue for a further period of two years (i.e. upto 31st December 1977);
- (2) One post of Deputy Controller may be sanctioned on an ad hoc basis till the end of December 1977; and
- (3) A review of the Foreign Companies Section may be undertaken in December 1977.

CHAPTER XIVPERSPECTIVE

14.1 The Exchange Control Department is inherently a dynamic organisation. The objectives and mechanisms

Introduction of its working have
to be modified

along with the changes in the availability of exchange resources, pattern of economic growth, political and social outlook and the emerging world order. It, therefore, faces many new challenges in the process. In order to fulfil the tasks and responsibilities, the Department should be flexible and pragmatic in its approach.

14.2 The Study Team has, within its limited time and capacity, examined some aspects of the

Study by work and made
O & M Division several
recommendations.

The impact of the proposed procedural and organisational changes cannot perhaps be assessed too suddenly. If the recommendations are found acceptable, the reorganised system may be allowed to work for a period of two years. It is

anticipated that the results will be fully reflected during this period. Where the changes prove useful, they may be retained and where they do not, the relative procedures should be discarded or modified. The Team, therefore, suggests that the working of the Department may be reviewed by the Organisation & Methods Division after a couple of years for the purpose of this assessment.

14.3 The recommendations regarding additional staff requirements have been made (vide Chapter XII),

Provision for
extra Staff for
Contingencies

keeping in view
the normal flow
of work in

different areas. Some Sections like Travel, P Form/ FTS, Students, Parliamentary Questions, Non-resident, etc. face abnormal rush, from time to time, due to seasonal or other sudden factors. The affected Sections usually resort to overtime work to keep their work under control and sometimes, they fail to do so despite overtime work. It is felt that the Department should have some flexible measures to meet such exigencies. The Banking Departments of the Bank are having floating staff and utilise

them as a task force for the pressure-points. The Study Team recommends that on this analogy, a complement of floating staff (proportionate to the sanctioned strength of the Department) may be placed at the disposal of the Exchange Control Department. These staff members will be attached to the Administration Division of Central Office and will be deployed, collectively and severally, according to the needs of the Regional Office or Central Office.

14.4 This apart, the current work also gets dislocated on account of ad hoc items (like preparation of background papers in connection with any enquiries by Public Accounts Committee or any Special Commission). Whenever such items of work are required to be tackled for a long period, the Department should be in a position to muster additional assistance in order to ensure that the normal work does not suffer. The Controller should have powers to create Special Sections, consisting of suitable number of Staff Officers and Clerks, for periods not exceeding three months subject to post facto

confirmation by the Department of Administration and Personnel. As the Regional Managers have already been vested with such powers, there should not be any difficulty in extending the facility to the Controller also.

14.5 It has been suggested that the Exports and Statistics Sections of the Bombay Regional Office

Special Cells
for Clearance
of Arrears

should be suitably
restructured to
ensure that work

in these two major areas is carried out timely and properly. In view of the fact that some major procedural changes have been suggested and as both the Sections are presently having heavy arrears, it will be necessary to make separate arrangements for clearance of these arrears. If the work relating to the back period is mixed up with the current work, there will be unnecessary confusion. In order to clear up the arrears, it is suggested that two Special Cells may be created. The proposed complement of floating staff may straightway be posted to these Cells. In addition, the available Leave/Trainee Reserves and a few staff members, out

of the proposed sanctioned strength, may also be mobilised. It is, however, felt that the combined strength of these groups will not be sufficient to clear up the existing volume of arrears within a reasonable time. Accordingly, some more staff may have to be provided, purely on a temporary basis, for the proposed Cells. If it is not possible to provide any extra staff, long-term overtime work will be unavoidable.

14.6 The proposed Special Cells may be placed under the charge of an Assistant/Deputy Controller. He should be given powers to close old export cases upto a limit of Rs.10,000/- at his discretion, depending on the circumstances of each case. Similarly, he should have powers to by-pass compilation or processing of some data relating to back periods where these are not directly needed for the Balance of Payments statistics. It is hoped that with the creation of Special Cells under the charge of an Assistant/Deputy Controller with more administrative powers, the arrears of Statistics and Export Sections will be cleared in about six months' time.

14.7 In case this proposal is accepted, a portion of the space presently occupied by the Exchange Control Department in the Mercantile Bank Building may be allowed to remain under the possession of the Department for the same period even after the Ritz Hotel Building is allotted to the Exchange Control Department.

14.8 As indicated elsewhere, revision of the Exchange Control Manual and Book of Instructions has become overdue. In view of the magnitude of this work, it will not be possible to assign this job to

Revision of
Exchange Control
Manual and Book
of Instructions

the regular staff
of the Department.
As in the past, a
Special Section

with one Assistant Controller, two Exchange Control Officers and a small contingent of supporting staff may be set up in order to ensure that the revised editions of these basic publications are made available to authorised dealers, public and the staff of the Department as early as possible.

14.9 At present, the Exchange Control Department does not have any system of direct discussions or exchange of views with representative organisations

(excepting Foreign Exchange Dealers' Association)

Setting up of
a Consultative
Committee

regarding various
policies and
procedures.

Although the policies and procedures are evolved with considerable care, it is not always possible to anticipate whether any special difficulties would be caused to authorised dealers/airline/shipping companies/travel agents, business firms/companies or the general public by the prescribed requirements. It is, therefore, suggested that a forum may be organised for the purpose of having direct discussions with representatives of Government Departments, Departments of the Bank and other concerned bodies from time to time. Such an arrangement will be helpful for the Management to explain the ramifications of the various policies and procedures or to clear any doubts and at the same time, to have a direct feedback from the concerned interests. The administration of Exchange Control will have to be made quite flexible in order to ensure that the procedures do not become unnecessarily irksome

to the public. Trade Control, Customs and many other service-oriented Departments are having advisory councils, consisting of officials and non-officials. The Study Team considers that a Consultative Committee may be set up in the Central Exchange Control Department on similar lines. The Committee may be headed by the Controller and may have representatives from —

- (1) Ministry of Finance (Department of Economic Affairs),
- (2) Import and Export Trade Control Organisation,
- (3) Customs,
- (4) Industrial Development Bank of India,
- (5) Export Credit & Guarantee Corporation,
- (6) An Export Promotion Council (by rotation),
- (7) Foreign Exchange Dealers' Association,
- (8) Federation of Indian Chamber of Commerce,
- (9) Air India,
- (10) Shipping Corporation or any other Indian shipping company,
- (11) Travel Agents' Association,
- (12) Economic Department (Division of International Finance),
- (13) Department of Statistics,
- (14) Department of Banking Operations & Development,
and
- (15) Faculty of Economics of any leading University.

The Deputy Controller holding charge of the Planning & Special Studies Division will work as the Member-Secretary.

14.10 In case there are special problems relating to any particular area (e.g. Exports, Studies/ Training, etc.), the Committee may set up a Sub-Committee with co-option of members representing the particular interests. Normally, the Committee will hold meetings once in a quarter. If, however, there are any significant developments, meetings can be convened even more frequently.

14.11 Centralisation of work is to be avoided as far as possible. At present, quite a number of

Centralisation
to be avoided

references are made
to Government by
Central Office

and also by the Regional Offices. Such references create lots of file-work at both ends and cause unnecessary delay in disposal of applications. This can be avoided if clear-cut guidelines are laid down for the purpose of administration of the existing policies. As far as possible, policy-issues should be thrashed out at the Government level

and individual cases decided by the Bank. Even within the Bank, steps should be taken to delegate powers to the various levels of Officers with adequate safeguards.

14.12 Under the existing procedure, the Heads of all Regional Offices are having, more or less, identical powers, irrespective of whether the concerned Officer is Joint, Deputy or an Assistant Controller. It is very necessary to give more powers to the Joint Controllers. In that case, Central Office will get less references from the Calcutta and Bombay Regional Offices.

14.13 In view of the various complexities developing at different centres, it is suggested that Controller,

Better Co-ordination
with Regional Offices

Additional Controller
or Joint Controller

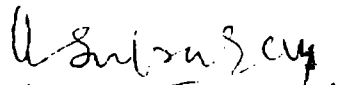
(Central Office) may periodically visit the Regional Offices. Such visits will help better appreciation of the local problems.

14.14 Central Office may also undertake occasional inspection of the Regional Offices, mainly with a view to overseeing whether the prescribed procedures are being properly followed at the branch level. This system of inspection will create an alertness in the minds of the operating staff and also bring uniformity in the

actual processing of applications. Since the objective of such inspections will be somewhat different, this may be undertaken in addition to the periodical inspections by the Inspection Department of the Bank and audit by the Regional Audit Cells.

14.15 In conclusion, we trust that our recommendations will be of some use in shaping the future of the Exchange Control Department. We suggest that the various recommendations in regard to rationalisation of procedures, reorganisation of the Department and sanction of additional staff may be taken up for examination as early as possible. We believe that with the implementation of the recommendations, the Department will be able to extend faster service to the concerned interests and create a better understanding in the community at large.


(H.P. Nag Chowdhury)


(V. Subrahmanyam)

MEMBERS

30th September 1975