AN APPRAISAL OF THE SYSTEM

- Part - I: Quantitative Appraisal and Identification of Credit Gaps.
- Part - II: Other Weaknesses of the System.
IN the preceding chapters we have made an analysis of the existing arrangements for export credit and guarantee facilities. It is clear from the discussion that a battery of institutions have been engaged in meeting out the export finance and guarantee requirements of the exporters. To reiterate, the short-term financial requirements of the exporters are being met primarily by commercial banks with the support extended by RBI and EXIM Bank. The chief patron for term credit requirements is EXIM Bank, and commercial banks participate in some of its schemes. Likewise, the guarantees like bid-bond and export performance guarantees are also been extended, to a very limited extent, by commercial banks and EXIM Bank. Aside RBI, the Government of India is also playing a supportive role via its schemes of Duty Drawback and Cash Compensatory Support. RBI, likewise, plays an identical role through its Scheme of Interest Subsidy. The nature of assistance and institution wise appraisal of the system have been included in the foregoing Chapters. An attempt is being made in this Chapter to present an aggregate assessment of the arrangements for export credit and guarantee in our country. This as-

143
Chapter Five

Assessment has taken care of both the quantitative and qualitative aspects. From quantitative viewpoint an exercise has been made to estimate the requirements for export credit during the subsequent two Plan periods, namely, Eighth and Ninth Five Years Plans. At the same time an estimate of the expected increase in the supply of export credit during the same period has further been attempted with a view to identify the gaps between demand and supply. The qualitative appraisal for the terms and conditions of credit, covers a critical examination of cost and administration of credit. Inferences so drawn have been utilized to develop an Optimum Model for Export Credit and Guarantee System for the country in the Chapter that follows.

PART - I

QUANTITATIVE APPRAISAL AND IDENTIFICATION OF CREDIT GAPS

5.2 For identification of gaps the export credit has been broadly classified into two groups: short term export credit and term export credit. And, as indicated earlier it involves estimation of the supply of and demand for export credit. Let us first take up the supply aspect of the export credit.

SUPPLY OF EXPORT CREDIT

5.3 The supply position of export credit has been presented in Table 5.1. It covers data for both the supply of short and term export credit on the one hand, and about the existing and pro-
jected position on the other. The data for existing supply is upto the close of the year 1986-87. And, the projections pertain to the period 1987-2000. The estimates of supply have been made with the help of trend line method on the basis of actual data for past seven years i.e. 1980-87 which covers the entire period of Sixth Plan and the two years of the Seventh Plan (For details, please see Appendix IV, Exhibit 1). These estimates are based on the presumption that the same trend will continue in years to come. As the situation exist this assumption appears quite reasonable too for, a faster growth in the supply of export credit can not be conceived unless an all out effort coupled with significant increase in the resource base of the financial institutions is stipulated.

5.4 Table 5.1 reveals that the short term export credit rose from Rs. 15,940 million during 1980-81 to Rs. 21,166 million during 1984-85, thus raising the total short term export credit assistance during the Sixth Plan period to Rs. 88,888 million, on the assumption that there is no roll-over of short term export credit. At the close of the year 1986-87 this figure stood at Rs. 27,073 million. Figures for long term export credits which were Rs. 2,016 million during 1980-81 moved marginally to Rs. 2,260 million during 1984-85, thus, raising the total figure during the Sixth Plan to Rs. 10,263 million. As at the end of 1986-87 this amount stood at Rs. 4,410 million.

5.5 A trend line has been fitted to the existing data pertaining
to the period 1980-87. The trend line equations (For details please see Appendix IV, Exhibit-1) indicate that in case of short-term credit the line begins with a figure of Rs. 19,452.9 million (Base year = 1984) and for every next unit it will increase by 1614.2857 million times the X unit. In case of long term credit the line starts with a figure of Rs. 2441.857 million (Base Year = 1984) and for every next unit it increases by 282.25 million times the X unit. Applying these equations, the supply of short term and term export credit for the remaining three years of the Seventh Plan and the whole of the Eighth Plan and Ninth Plan periods have been estimated. It is clear from the Table that the supply of short term credit would aggregate Rs. 91,29,855 million for the Seventh Plan; Rs. 1,69,905 million for Eighth Plan and Rs. 2,10,260 million during Ninth Plan periods. In it the shares of Commercial Banks, RBI and EXIM Bank stood at 95.5, 0.5, and 4 per cent respectively. The supply of long term export credit aggregates to Rs. 18,392 million for the Seventh Plan, Rs. 24,912 million for the Eighth Plan and Rs. 31,963 million for the Ninth Plan periods. Of this, 80 per cent of the assistance is to be provided by EXIM Bank, and the rest 20 per cent by the scheduled commercial banks.

DEMAND FOR EXPORT CREDIT

5.6 After having presented the supply position of export credit

1. Trend Line Equations are calculated as under:
   Short Term Credit : \( Y_c = 19452.857 + 1614.2857 \times X \),
   Term Credit : \( Y_c = 2441.857 + 282.25 \times X \).
for the Seventh, Eighth and Ninth Plan periods, we may now divert our attention to the demand of export credit. A few years ago, the National Workshop on Export Development and Strategy (organized by ECGC) projected that the demand for short term export credit will be 25 per cent of the total export earnings during the Sixth Plan period. Before that, a panel set up by the Commerce Ministry estimated that we may require export credit of the order of Rs.900 to Rs.1,000 crores in order to achieve the export target of Rs.3,000 crores in the financial year 1974-75. This requirement excludes the credit needs of exporters based on deferred payment basis. On co-relating the demand for export credit with targeted export earnings it may be discovered that short term credit needs form about 30 to 33 per cent of the latter for a particular period. This view is also supported by Sh.B.L. Paranjape. Another study titled 'Financial Institutions & Economic Growth of India', also estimated the demand for short-term export credit assuming it to be 30 to 33 per cent of the targeted export earnings. Thus, on the basis of one or the other of these ratios, we may estimate the short-term credit

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requirements of the exporters. An estimate of the term export credit can be made on the basis of proportional value of the total term export orders financed by IDBI/EXIM Bank and commercial banks. Generally, it is the engineering goods which are sold on deferred credit terms. Table 5.1 shows that the total term credit extended by IDBI/EXIM Bank and commercial banks during Sixth Plan period (1980-81 to 1984-85) stood at Rs. 10,263 million. The value of term export orders during the same period (shown in Table 5.2) stood at Rs. 42,000 million. It reveals that IDBI/EXIM Bank and commercial banks have granted term credit assistance equivalent to about 25 per cent of the value of term export orders. Keeping these norms in view, we may estimate the short term and term export credit requirements.

5.7 The estimates of the demand for export credit during Sixth, Seventh, Eighth and Ninth Plans have been presented in Table 5.3. The projections for export earnings have been presented in Table 5.2. The table shows that the total export earnings in the entire period of the Sixth Plan amounted to Rs. 4,48,650 million. Of which earnings from the export of engineering goods totaled Rs. 42,000 million. Accordingly, the short and medium/long term credit requirements for the full period of Sixth Plan were estimated at Rs. 1,34,595 million and Rs. 10,500 million respectively. The Draft Seventh Five Year Plan projected the earnings from exports to grow to Rs. 6,06,530 million for the entire Seventh Plan period; 11.56 per cent of these would be from the export of

engineering goods. Volume of exports has been projected to rise to nearly 7 per cent annually during 1985-90. However, on the face of rigorous measures undertaken by the Govt of India to accelerate the growth of exports, and their consequent success resulting into increase in exports by 15.3 per cent during 1986-87 and again by 24.7 per cent during first nine months of 1987-88. The target of 7 per cent growth in exports seems too inadequate. The currently prevailing environment of optimism has led the Commerce Minister, Mr. Dinesh Singh to have as high a desire for growth in exports as 30 per cent. The National Workshop on Export Development and Strategy (organized by ECGC) has estimated a 20 per cent growth rate, providing for 10 per cent inflation and 10 per cent real growth. We also feel that 30 per cent is too high a growth target. In the long run growth target of 20 per cent seems more realistic. Our estimate reveals that on realization of 20 per cent growth target, the export earnings would rise to Rs.7,83,800 million during Seventh Plan; Rs.19,36,580 million during Eighth Plan and Rs.48,18,820 million during Ninth Plan period. We have made these estimates at the 1986-87 prices. Assuming that earnings from the exports of engineering goods would form the same ratio to the total exports as

2. Ibid. P. 63.
was projected in the Draft Seventh Five Year Plan, the estimated
value of the exports of engineering goods would be around Rs.
81,089 million during Seventh Plan; Rs. 2,23,860 during Eighth
Plan and Rs.5,57,065 million during Ninth Plan. Keeping these
estimates in view, the demand for short term export credit is
estimated to be Rs.2,35,140 million during Seventh Plan; Rs
5,80,974 million during Eighth Plan; and Rs.14,45,646 million
during Ninth Plan. The demand for medium and long term export
credit is estimated to be of the order of Rs.21,159 million
during Seventh Plan; Rs.55,965 million during Eighth Plan and
Rs.1,39,263 million during Ninth Plan.

CREDIT GAPS

5.8 The foregoing picture of supply and demand for export
credit clearly reveals that the existing institutional set up for
export credit has met 66 per cent of the needs of short-term
export credit during the Sixth Plan period. It is likely to meet
about 55 per cent during Seventh Plan, 29 per cent during
Eighth Plan and 15 per cent of short term credit requirements
during Ninth Plan. This indicates a current gap of 34 per cent
and prospective gaps of 45 per cent, 71 per cent and 85 per
cent, respectively, during Seventh, Eighth and Ninth Plans. The
IDBI/EXIM Bank, along with Schedule Commercial Banks met about 98
per cent of the total term credit requirements of the exporters
during Sixth Plan period. It, however, appears that, EXIM Bank
and commercial banks shall only be able to take care of 87 per
cent, 45 per cent, and 23 per cent of such needs during Sev-
Supply & Demand Position of
Short Term Export Credit

- □ Supply
- □ Demand

Amount in Rupees Million

<table>
<thead>
<tr>
<th>VI Plan</th>
<th>VII Plan</th>
<th>VIII Plan</th>
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Note: The diagram shows the increase in supply and demand over the VI, VII, VIII, and IX Plans.
Supply & Demand Position of

Term Export Credit

Amount in Rupees Million ($1000s)

VI Plan VIII Plan IX Plan

Supply Demand
enth, Eighth and Ninth Plan periods respectively. The term export credit gaps are, thus, likely to widen from 2 per cent during Sixth Plan to 13 per cent during Seventh Plan, 55 per cent during Eighth Plan and 77 per cent during Ninth Plan.

5.9 The foregoing picture concerning the gaps in the short term and medium and long term export credit leads us to some of the important conclusions. First, the present supply, especially for short duration, is inadequate in the light of the estimated requirements of the exporters as projected above. Second, the gaps in the estimated supply and estimated demand continues to widen as we move farther. In short term credit, the gap is likely to rise from the existing 34 per cent to 85 per cent during Ninth Plan. The term credit, though enough during Sixth Plan, is likely to leave a unfulfilled gap of 77 per cent during Ninth Plan. Currently, the institutional arrangement for the supply of short term credit is weak. The supply of term export credit is almost satisfactory at present. One possible reason for this situation is setting up of an independent institutional agency in the form of EXIM Bank which is very well taking care of the term credit requirements of the exporting community. But on the face of optimistic export targets and increasing competition in the world markets, this institution too, will prove to be inadequate. If the existing trends of supply continue, they would leave a larger gap during the coming five year plans. Apart from this, the existing system of export credit and guarantee contains several other shortcomings. Amongst them, the important ones are being presented in the following section.
5.10 Let us begin with the problems of small exporters. During the course of author's discussions with them, it has been noticed that many of them are not aware of the concessions provided by the RBI to the exporters. Further, they consider export financing schemes at par with ordinary financing schemes and hence have not been found serious in availing the advantage available under these special schemes. What is perturbing is this that those who were aware of the export financing schemes too are hesitant to avail the advantages on account of the cumbersome, lengthy and costly procedures of these schemes. Thus while discussing the Packing Credit Scheme of the Commercial Banks, the small exporters complained that the quantum of credit granted by the banks under this scheme is generally inadequate, and the period of lending is shorter that the 180 days as envisaged under the scheme. They observed that at times, even if the necessary conditions of Packing Credit are fulfilled, banks refuse to grant advance even after protracted correspondence. In some cases assets are required to be mortgaged as security even though the contracts are supported by irrevocable letters of credit. Even ECGC guarantees are not considered adequate security because in such cases banks are still required to share the risks. As regard
other problems small exporters opined alongside the big exporters as would be evident from the discussion presented in subsequent paragraphs.

**LARGE SIZE EXPORTERS**

5.11 We may now turn towards the problems of big exporters. The main problem of big exporters is that of inadequate availability of credit. They feel that inspite of the refinance and participation facilities, commercial banks hesitate in extending sufficient amounts of credit to them. The exporters of turn-key projects contend that they require a considerable amount of local (in foreign country) raw materials, construction of civil works, laying down of services etc. and are allowed periodic payments from overseas buyers only upon the completion of a certain amount of work. They are allowed to borrow local currency funds from banks in importing country on the basis of guarantees of Indian banks who in turn require an ECGC policy. Raising of these loans from the local banks costs very high to them. Therefore, they are of the considered opinion that these local costs, being a part of the project costs, should also be considered as part and parcel of their export finance needs and should be made available at concessional rate of interests. Another problem faced by the big exporters is in the cases of foreign tenders of large amounts for which the exporters are required to open Bid-Bonds, at times, of huge sums. It is a common practice of the Indian banks opening the Bid-Bonds to charge commission at the rate of 1 per cent of the value of Bid-Bond. And the correspond-
ing bank (overseas), through whom the bid-bonds are opened, further charges a commission at the rate of one per cent. If the exporter is not successful in bagging the tender, he is still required to bear this 2 per cent commission as charged by the banks through whom the bid-bond has been opened. These commissions as paid on the unsuccessful bids are regarded as an unfair burden on them and a distinct disincentive for submitting offers on global tenders.

COMMON PROBLEMS

5.12 Aside, the exclusive problems of small and big exporters, there are certain other complaints also which have been advocated by both the small and large sized exporters on different schemes and on terms and conditions of the schemes. Some of the exporters complained that they are not able to obtain sufficient finance from banks. Their demand for funds is arbitrarily cut down by the banks without giving any justification. Exporters further said that even when they succeed in obtaining the necessary credit, the cost of such borrowing is fairly high. On posing this problem to the bankers, it has been brought to the notice of the author that they have their own criteria to evaluate every loan application and if they find necessary the demand for loan is revised. On term finance problems, commercial banks agreed with exporters. But they have their own point of view. They contend that they hesitate in extending credit to medium term exports because they are afraid of the enormous risks involved in such transactions. They argue that suppose the risk
materializes, then they can claim from ECGC 90-95 per cent of the loss. It means commercial banks have to bear 5-10 per cent of the loss, which in case of term exports may calculate huge in money terms. Beside, the commercial banks have to repay the EXIM Bank (which had refinanced these loans) the whole amount immediately. So commercial banks have to bear the burden of 100 per cent of the risk for the period involved in finally settling the claim with ECGC. Bankers have further been found to be dissatisfied over the discriminatory treatment accorded to medium term export credit under the Interest Subsidy Scheme. Under this scheme the interest subsidy of 3 per cent is limited to that portion of the medium term loans to exporters which is financed out of their own resources and not extended to credits refinanced with EXIM Bank. However, in case of short-term packing credit advances and post-shipment advances, the subsidy is available even if the loan is refinanced by the RBI. Commercial banks argue that since this scheme was introduced to give an inducement to the banking institutions by alleviating the burden on account of granting of export credit at concessional rate, the same favorable treatment should be given to them for extending medium term export credit as well. They argue that the need for interest subsidy in regard to the export transaction on a deferred term basis is all the more greater because of more intricate nature of the transactions and which require close follow-up and experienced specialized staff. Thus it seems that as at present no adequate inducement exists for the bankers in respect to financing of such exporters.
5.13 While talking with the Federation of Indian Export Organisation (FIEO) officials a few more points came to light. We were disclosed that in order to find customers abroad, the Indian exporters have to use the services of middlemen located in overseas and they charge a commission from the exporter. It is learnt that the remittance of commission to these agents consumes long time and cause irritation in the minds of overseas buyers. Moreover, in case of consumer products, the percentage of commission being offered is non-competitive vis-a-vis their counterparts. This clearly points out to the need for streamlining the existing procedures concerning with the remittance and the rates of the commission.

TERMS AND CONDITIONS OF THE SPECIFIC SCHEMES

PRE-SHIPMENT FINANCE

5.14Difficulties pointed out by bankers and exporters in respect to packing credit advances may be enumerated to begin with.

(i) Under RBI rules, advances against packing credits can be liquidated only by negotiation of documents. If the letter of credit is restricted to a bank, with which the exporter has no account, the exporter finds it very difficult to arrange export credit at concessional rates. Some banks permit the facility of packing credits to be drawn but require the routing of the documents to the negotiating bank through the bank granting the advance and charge extra handling charges. In this process not
only a good amount of time is lost but the cost of credit too stand raised from the angle of exporters.

(ii) As indicated earlier, the Reserve Bank's limits of refinance are fixed for each exporter separately. Where an exporter is an established client of the commercial bank, there is no problem for the Reserve Bank in granting packing credit advance to the exporter's bank because the concerned commercial bank has already obtained a credit limit on behalf of the exporter from it and is willing to borrow up to the limit from the RBI. But where an exporter is a new customer to the bank, or if it is a question of accepting of a big export order, the commercial bank is required to apply to the RBI for the exporter's new limit or additional limit. This procedure is time-consuming and the exporter is likely to lose the export order in this duration.

(iii) In the case of exports of cotton textiles, export sales are made on the basis of payment upon arrival of steamer at destination. In such cases the exporters draw demand drafts on overseas clients who pay only on arrival of the steamer. Since there is no fixed date for the arrival of the steamers, exporters cannot draw usance bills for a fixed tenure. When the payment is not made by overseas buyers on presentation of such drafts, the commercial banks levy overdue interest on the exporters at the normal lending rate which is much higher than the concessional rate.

DURATION OF CREDIT

5.15 The period for which ceiling rates of interest are applicable at pre-shipment and post-shipment stages, underwent various
changes. At present the maximum period for which the concessive rates are applicable is 180 days. According to some exporters the period of 180 days is inadequate and should be enhanced to 360 days. Reasons put forwarded for considering this period inadequate are many such as: (a) that delay occurs in transshipment; (b) prohibition in certain countries on transfer of exchange before 120 to 180 days after landing of the goods at destination; (c) refusal of buyers to take delivery of the goods and extra time needed by the exporters to find a new customer; (d) promotion of new lines of exports; (e) time required to dispose of goods during off-season; and (f) delay caused by inspection and preparation of claim reports and occasions when only a part of the payment is made pending resolution of the counter claims. At pre-shipment stage also the period of 180 days for submission of shipping documents is regarded inadequate for much weighty reasons as: (a) manufacturing delays on account of labor troubles; and, (b) shortages of raw materials, etc. The extensions can be granted in exceptional cases on receipt of proper justification but it is also important that the outstanding amount during the extended period be treated as export finance and therefore eligible for refinance and concessional interest rates.

COST OF CREDIT

5.16 Exporters of traditional goods like tea, jute, cotton etc. consider the ceiling rate of 9.5 per cent as adequate but the exporters of non-traditional goods such as engineering products,
particularly those involved in high value and turnkey contracts, feel strongly in favor of further reduction in this rate. It is well recognized that the production costs of these products are already higher than those of India's competitors in the international markets. Interest rate constitutes one of the cost elements and therefore further reduction in this rate will encourage the exporters to sustain and buckle their efforts in creating larger surpluses for exports at competitive prices. Interest cost particularly in respect to turnkey projects and high value transactions could assume a significant element in the sales contracts. In the context it would be interesting to mention that several export orders are reported to have been lost to Indian exporters mainly because lower interest charges could not be quoted during negotiations. From the analysis of interest rates chargeable on export credit, another feature is discernible, viz., these are positively co-related with the general rate structure of the country. It is felt that a downward adjustment of the rate in the event of lowering of the Bank Rate and the general interest rate structure is desirable, but an upward adjustment of the rate following the raising of the Bank Rate may not be desirable. The latest revision, of course, is in conformity with our suggestion. The general feeling among exporters however is that the availability of credit is more important than the cost of credit. After the revision in Cash Compensatory Schemes in February, 1987 thereby including many more articles,

1. Discussion with FIEO officials.
it is no longer considered necessary to give concession in interest rates separately as the element of the subsidy can be easily built in cash compensatory schemes. The exporters complained that the quantum of credit granted to them under the concessional rate is not adequate to meet their requirements. In certain cases, where the export contacts are not backed by letters of credit or where the letter of credit is established for a major part but not for the full invoice value, bankers are not inclined to grant packing advances at the concessional rate to the full extent.

DUTY DRAWBACK SCHEME

5.17 The main bottleneck in the operation of this Scheme has been the undue delay that is noticed in the fixation and settlement of its rates. Even in case of products where the duty drawback rates are preannounced, it takes as much as one year before a settlement is actually effected. In the case of products where drawback rates are not fixed, it may take even longer duration. This impairs the exporter's capacity to extinguish his bank credit within the stipulated period and he is at times required to pay regular commercial rates on a transaction which is otherwise covered under concessional rates of export finance. Though certain modifications have been effected to mitigate these difficulties, the scheme has yet to attain the desired degree of popularity among exporters and bankers.

LINES OF CREDIT

5.18 Exim Bank extends lines of credit to overseas governments
or agencies nominated by them to enable buyers in these countries to import capital/engineering goods from India on deferred payment terms. This facility enables Indian exporters to offer deferred credit terms to customers in these countries. At present no commission is allowed to overseas agents under these lines of credit, and thus, they show very little interest in such exports from India. One of the conditions of EXIM Lines of Credit is that any bank charges, commission, etc., payable in India, shall be charged from the exporter, and also, the ECGC premium in certain cases. This condition places an extra burden on the shoulders of the exporters and thus should be relaxed.

RELENDING FACILITY

5.19 Under relending facility to overseas banks, a fees of 1/4 per cent is charged from the borrowing bank as against the 1 per cent spread of interest for Indian Banks. If the borrowing banks had to incur costs on account of their participation in the scheme, they will certainly hesitate in shouldering the burden of operating in the scheme.

FINANCE FOR EXPORT ORIENTED UNITS

5.20 At the time of providing finance for Export Oriented Units, Exim Bank charges rate of interest, guarantee commission, commitment fees, and out of pocket expenses (such as legal charges, travel expenses, incurred in connection with project appraisal, documentation and monitoring of assisted projects). It is felt
that there is no justification in charging out of pocket expenses when adequate interest has already been charged. Further, the EXIM Bank’s procedure for extending financial assistance to export oriented units is time consuming and thus causes delay in disbursing loans to the exporters. For instance, it takes 2-3 months to review and approve the loan application together with project proposal. In case EXIM Bank decides to seek participation from other financial institutions, the application will be referred to them after it is admitted for appraisal. In such cases, appraisal would be carried out jointly with other institutions. This duplication of project appraisal is unwarranted and should be avoided. Besides, EXIM Bank should see that loan proposals are reviewed as quickly as possible.

ECGC SCHEMES

5.21 The exporters pointed out that in the case of Standard Policies the ECGC stipulates that an exporter should insure all exports irrespective of the destinations and the risk element. But as a rule, exporters would tend to obtain risk insurance cover only to destinations where risks are known to exist. Under the circumstances quite a good number of exporters remain hesitant to take risk covers for exports to all destinations. Exporters maintain that the approach followed by the ECGC if accepted by them will add to the premium costs, and deter the exports of the traditional items, particularly tea, to destinations which are free from all risks. In case of non-traditional items there is no problem and the scheme has worked more satisfactorily
HIGH PREMIUM RATES

5.22 Another general problem of the exporters is of high premium rates. Exporters complain that the premium rates of ECGC are fairly high. Not only this these rates have been revised several times without any convincing rationale. It has been learnt from ECGC officials that they are still thinking of revising these rates in the upward direction. The main reason for the high rates of ECGC is that the Corporation operates on 'profit basis.' But if the Corporation could change its motto and if it could operate on a no profit no loss basis, the premium rates could be reduced substantially.

CREDIT LIMITS

5.23 Exporters and bankers are found further dissatisfied with the Corporation’s practice of fixing the credit limits on each of exporter’s foreign buyers. Exporters complain that ECGC takes unduly long time in sanctioning these limits. In many cases the approved limits are considerably less than the amount requested. This practice has adverse impact on the exporter’s capacity to borrow from the banks and even results in denying the cover to some exporters. It also encourages the exporters to exaggerate their requests for credit limit in the hope that the approved limit might be somewhere around their actual requirement. It really looks funny to say that a foreign buyer is credit worthy up to the business of Rs.10 lakhs and he is not so for a marginally higher business of Rs.11 lakhs.
5.24 Exporters also complained that ECGC takes a very long time, some times even more than 3 to 4 years, in settling the claims. Cases have been brought to our notice in which efforts have been made to avoid these settlements by attributing losses to exporter’s failures and insists on exporters instituting legal proceedings against the defaulting importers in the later’s country. This type of practice is not only discouraging but results in the loss of foreign exchange to the country when exporters prefer not to go through the legal process which evidently is time-consuming, costly and places the Indian exporting community into bad repute in the country where legal proceedings are instituted. On this score our discussions with the officials of ECGC revealed that the delay occurs only in few cases. The cases of insolvency and the protracted default of the foreign buyers are settled fairly quickly. But in cases where buyers are not accepting goods or are not making payments for the goods because of differences over the fulfillment of the terms of a contract, the ECGC makes the payment only after the dispute is settled between the parties and the amount payable by the buyer to the exporter is decided.

5.25 Many exporters, also advocated in favor of 100 per cent risk-sharing by the Corporation. But to us it seems that it would be unwise to give complete protection to the exporter. The retention of a certain portion of the loss by the exporter is necessary in order to ensure that the exporter does not extend excessive credit and exerts normal prudence in the transactions.
However, the risk-sharing under Financial Guarantees, which at present ranges between 66.67 per cent and 90 per cent can be reviewed as to make it vary between 80 per cent and 95 per cent. This will be helpful in minimizing bank's reluctance to advance credits to exporters.

5.26 One more point. The small exporters of non-traditional items lack proper understanding in respect to the functions of this scheme. The small exporters of engineering goods, have been found to possess very little experience in export business. Also their knowledge about international trade practices is rather poor. All this leads to imperfections in their export performance if adjudged in the light of the terms of the export contract. This fact in its turn results into heavy losses which do not fall within the purview of ECGC's policy. Obviously, several disputes arise on this count too.