II

INSTITUTIONAL SET UP AND SCHEMES

- Type of Export Credit Requirements
- Institutional Arrangements
- Major Programmes of Assistance
THIS chapter intends to cover broadly the three aspects. One, the nature of credit required by the exporters. Two, the institutional set up that has come to develop over the years for meeting the credit requirements of India. And, three, the nature and terms of references of the major programs of assistance designed to benefit the exporters. Well we begin with the first aspect.

TYPES OF EXPORT CREDIT REQUIREMENTS

2.2 The term export credits used in the present study will mean export financing. A very simple definition of export finance, which will be the basis of the subject is that it is the finance needed by an exporter for carrying out an export order. This means that the subject matter of the present study would cover virtually every financial need of an exporter whether it pertains to 'pre or post-shipment' stages and is for short, medium or long periods. Accordingly, export credit can be classified from the view point of stages at which it is required and the period,
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for which it relates. In terms of first basis export credit could be of two broad types, viz., Pre-shipment Credit and Post-shipment Credit. The pertinent explanations of these is as thus:

a) Pre-Shipment Credit: When exporter gets an export order, he needs finance for producing or buying the goods and putting them on board of a ship for the purposes of exports. The finance required by him at this stage for financing the purchase, processing, manufacturing or packing of goods is referred to as 'Pre-Shipment Credit'. Alternatively, it is known as 'packing credit'. This type of credit can be given on the strength of either a letter of credit opened in favor of export order or a firm export order. The maximum period for pre-shipment credit could be 180 days; however, in special cases, this period can be more.

b) Post-Shipment Credit: It refers to any loan or advance granted or any credit provided by an institution to an exporter of goods from the date of extending the credit after shipment of goods to the date of realization of export proceeds. Post-shipment credit is intended to assist the exporter to have access to capital during the period between the shipment of his consignment and the receipt of the proceeds. The post-shipment credit can be further divided into (i) Short-Term, (ii) Medium-Term, and (iii) Long-Term Credit. Short term credit does not normally exceed 180 days. Medium term credits are often confined to consumer durables and to intermediate and light capital goods. The conditions for long-term post-shipment credits are identical to that for the medium term, excepting that the period covered
2.3 The need for guarantees arise because of the risks inherent in export business. Nature and type of guarantees would depend upon the kind and extent of risks involved at a particular point of time. Broadly there can be three types of risks, which may be involved in export business, namely, commercial risks, political risks and financial risks. Commercial risks arise due to general commercial nature of the export business. These include, among others, risk of insolvency of the foreign buyer or his protracted default to pay for goods accepted by him or buyer's failure to accept the goods, when such non-acceptance is not due to the exporter's action. Political risks crop up on account of political bungling among the nations. They may take the shape of restrictions on remittances by the government in the buyer's country or any government actions which may block or delay payment to the exporter; war, revolution or civil disturbances in the buyer's country; new import licensing restrictions in buyer's country; and, cancellation of export licence in India. Financial risks likewise are the risks which come into being due to their lending to the exporters. Banks hesitate in financing export business as they are expected to expose themselves to undue risks. Thus there is a need for guarantees so as to encourage banks to give adequate credit and other facilities to the exporters both at the pre-shipment and post-shipment stages rather
on a liberal basis. Exporters need guarantees which can provide them protection against all these risks. Term export guarantee covers every effort which is intended to cover these risks.

INSTITUTIONAL ARRANGEMENTS FOR EXPORT CREDIT AND GUARANTEE FACILITIES IN INDIA.

2.4 With the effluxion of time and spectacular breakthrough in exports, the government has evolved a number of schemes in the country with a view to ensuring that exports no longer suffer due to paucity of credit and guarantee facilities. In our country at present there are various institutions engaged in financing the export trade. These include: Commercial Banks, The Reserve Bank of India (RBI), Export Credit Guarantee Corporation of India (ECGC), and the Export Import Bank of India (EXIM BANK).

2.5 Among the variegated institutions, commercial banks are the most important and the oldest source of financing exports in the country. Prior to the establishment of Export Risk Insurance Corporation (ERIC) of India in 1957, the commercial banks were granting export credit independently i.e., without the support of guarantees or refinance facility. In July 1957, the Export Risk Insurance Corporation of India appeared on the scene. Although it started making available insurance policies yet the purpose of granting direct support to the commercial banks could not be served as the same only encourage the commercial banks indirectly to provide finance to those exporters who have been covered by
the policies of ERIC. Later on, the Corporation added many more schemes which surely relieved the commercial banks to a great extent from financial risks involved in financing the nation's foreign trade. In October 1958 the RBI modified its Bills Market Scheme so as to cover the export bills therein. Under the extended Bills Market Scheme, all Scheduled Commercial Banks which were eligible for RBI's assistance under the earlier scheme and authorized to deal in foreign exchange were declared eligible to borrow also against the export bills at Bank Rate. Since then, this scheme has been modified several times with a view to adapt it to the changing requirements of the exporters. Refinance Corporation for Industry entered into the organizational set up for export credit in January 1963 by introducing a scheme for Refinance of Export Credit. In September 1964, the business concerning with refinancing of exports was made to route through the newly formed Industrial Development Bank of India (IDBI). The responsibility of providing term finance to exporters was also assumed by the IDBI. The IDBI discharged its responsibilities well and continued to handle the export finance operations till February 28, 1982. From this date onwards the EXIM Bank, however, took over the entire gamut of export financing functions from the orbit of IDBI. The EXIM Bank was set up in the country on January 1, 1982 as a public sector financial institution on the lines identical to the similar Banks found operating in Japan, USA and South Korea with the avowed objectives of financing, facilitating and promoting foreign trade. The Exim Bank commenced its operations with effect from March 1, 1982. The Export Import Bank Of India, acting as an apex financial institu-
tion for coordinating the activities of other export financing institutions in the country, extends both short-term and long-term finance to exporters of capital and manufactured goods, software and consultancy services, overseas joint ventures, and turnkey projects via its suitably designed programs.

MAJOR PROGRAMMES OF ASSISTANCE

2.6 Since October 1958, when the RBI extended its Bills Market Scheme to cover exports, the institutional arrangement for the financing and refinancing of short, and medium/long-term export credits have witnessed significant expansion and liberalization with a view to adapt it to the emerging needs of the exporters. Indian commercial banks authorized to deal in foreign exchange are the main source of providing short-term credits for periods not exceeding 180 days both during pre-shipment and post-shipment stages. RBI assists commercial banks through refinance facilities as well as several incentives and concessions. Prior to March 1, 1982, IDBI and with effect from March 1, 1982 the EXIM Bank has been the chief institutional sources of term (including medium term) finance for the exporters of capital goods, manufactured goods, software, consultancy services, overseas joint ventures and turnkey projects. Commercial banks also have recourse to refinance facility of these institutions at concessional rates, both during pre-shipment and post-shipment stages. In addition to financing and/or refinancing facilities provided by authorized commercial banks, Exim Bank and the RBI,
Indian exporters have recourse to the credit insurance and bank guarantee facilities of the Export Credit Guarantee Corporation of India (ECGC) Ltd. ECGC is a non-lending institution but is intended to provide appropriate services for the promotion of Indian exports inter-alia through insuring against non-payment on the part of overseas buyers and guaranteeing Indian banks against defaults on the part of exporters. Now we may discuss various programs of export financing and guarantees as run by varied institutions referred above.

1. SCHEMES OF COMMERCIAL BANKS

2.7 As indicated above, Commercial Banks extend their financial assistance to the exporters at two stages, namely, pre-shipment and post-shipment. Under the Foreign Exchange Regulations Act 1949, only the licensed commercial banks are permitted to deal with the foreign exchange business. Such banks are known as "authorized dealers". Commercial banks generally provide three types of loans for exports based on the period of credit:

(i) Short-term Credit for a period not exceeding 180 days;
(ii) Medium-term credit for a period ranging between 180 days and five years; and (iii) Long-term credit which is for periods beyond five years. Pre-shipment credit is given generally for short-term. Post-shipment credit however, may be given for any

1. Adapted from a document of Foreign Exchange Dealers Association, Bombay.
duration. Various schemes of Pre-shipment and Post-shipment credits can be broadly classified as detailed hereunder:

I Pre-shipment Finance

2.8 The pre-shipment finance may take the following shapes:

1. Packing Credit—Clean and Secured;
2. Advance Against Cash Incentives; and
3. Advance Against Duty Drawback.

II Post Shipment Finance

2.9 Likewise, post-shipment finance covers the following:

1. Negotiation of export documents drawn under Foreign LCs including the Bank acting as Accepting or Paying Banker;
2. Purchase of export documents drawn under Confirmed Export Contracts/Order;
3. Advance Against Bill sent on Collection Basis;
4. Advance Against Goods sent on Consignment Basis;
5. Advance Against Undrawn Balances;
6. Advance Against Cash Incentives;
7. Advance Against Duty Drawback;
8. Financing Exports Against Deferred Payment Agreements and Turnkey Contracts.

2.10 As an export promotion measure, export finance is given priority treatment and banks extending advances to this sector are made eligible by RBI for certain benefits. These benefits are
primarily of two types:

1. Export Credit (interest Subsidy ) Scheme, 1968, of RBI. Under this scheme, banks are granted interest subsidy to compensate for charging lower lending rate on such advances;

2. Refinance Scheme: In this scheme, banks can borrow from RBI against their advances to exporters.

I. PRE-SHIPMENT FINANCE

2.11 The basic purpose of advances granted under pre-shipment finance, is to extend financial assistance to the eligible exporters for procuring/ manufacturing/ processing/ packing/ warehousing/ shipping the goods meant for export. It is a short term accommodation extended to the exporters against anticipated shipment of goods. Pre-shipment finance is given by banks mainly in the form of packing credit. But they also extend pre-shipment finance against Cash Incentives and Duty Drawback. In the context, it may be noted that while these advances may be of a clear nature at initial stage, these could be converted into secured advance as soon as the goods are procured by the exporter and are undergoing further processing/manufacturing through hypothecation of the goods in the name of the concerned bank.

1. FEATURES OF THE PACKING CREDIT SCHEME

2.12 The interesting features of packing credit scheme are as given below:

a) Period: Packing credit is generally granted for a short peri-
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od, not exceeding 180 days from the date of disbursement of loan by bank. The exact period for which the loan is extended will depend upon the genuine credit requirements of the relevant transaction. In exceptional circumstances, depending upon the merits of each case, the Reserve Bank of India may permit extension in the period of a packing credit loan beyond 180 days.

b) Evidence of Export Commitment: Normally packing credit facility is given by the bank only against lodgement of a documentary letter of credit or a firm export order from the foreign buyer. However, in the case of exports of specified products such as cashew-nuts, tea, coffee, jute, tobacco, precious and semiprecious stones, mineral ores etc., the Reserve Bank of India under their pre-shipment credit scheme permits grant of packing credit loan without the production of a letter of credit or a firm order, provided the exporter gives an undertaking to submit to the bank these documents within a reasonable time or an evidence that the order will be received.

c) Repayment: The packing credit loan is required to be liquidated through negotiation/purchase of relevant shipping documents or remittance of proceeds from the government under export assistance schemes.

d) Rate of Interest: As per the directives of RBI, the packing credit loan is granted at a concessional rate of interest. At present in terms of RBI’s circular bearing no. DBOD/DIR/BC 79/c-96-86 Dated 30th July 1986, revised lending rates and ceiling rates on export advances as charged by banks have been pre-
scribed (See, Exhibit-1, Appendix :II). Besides the rates of interest prescribed by RBI, banks are expected not to charge any service or other levies excepting the premium payable to ECGC on their Guarantees.

e) Packing Credit on Running Account Basis: In respect of certain commodities as also certain items (See, Exhibit-2 of Appendix:II) produced in Free Trade/Export Promotion Zones at Kandla and Santacruz, packing credit finance is permitted to be given on a Running Account basis i.e. first debit in the account is repaid by (or adjusted against) the first credit to the account irrespective of the fact that the packing credit loan pertaining to the first debit may not relate to the export order under which the export bill is submitted for negotiation/purchased/discount etc.

f) Substitution of Contracts. If the exporter who has availed of pre-shipments finance is confronted with a cancellation of the export order against which he obtained the advance and is therefore not in a position to tender export documents for adjustment/liquidation of the advance by the relative export proceeds, the outstanding advance can be adjusted against the export bill drawn on some other buyer (alternative importer), provided the relative export bill is in respect of the same goods for which pre-shipment credit was originally granted.

g) Facilities for Consultancy Services. In case of consultancy services, exports may not involve actual movement of goods. In such cases, pre-shipment finance at concessional rate of interest
can be extended to exporters to enable them to undertake preliminary arrangements such as mobilising technical and other staff and training them.

h) **Export of Goods For Exhibition and Sale.** Banks may be provided to finance against goods for exhibition and sale abroad in the normal course in the first instance and after the sale is completed, allow the benefit of concessional rate of interest on such advances both at the pre-shipment stage and at the post-shipment stage, up to the stipulated period by way of rebate. Such advances should, however be given in separate accounts.

i) **Pre-shipment Credit for Imports Under Advance Import Licences.** Import under advance import licensing system are also eligible for finance at a concessional rates, provided other terms and conditions of pre-shipment credit, including lodgement of LC/Firm Order, wherever required, are complied with.

j) **Quantum of Finance.** Generally the pre-shipment advance granted to the exporter does not exceed FOB value of the goods or domestic market value of the goods whichever is less; however, there could be exceptions to this practice under special circumstances. One, the pre-shipment finance can be made available to the extent of domestic market value of the goods even though such value is higher than the FOB value of the goods, provided the goods are covered by Export Incentive of Government of India/Duty Drawback Scheme (and ECGC Guarantee is obtained). In such case, excess advance would be liquidated from the cash Incentive/Duty Drawback received. Two, RBI has permitted Banks to grant packing
credit advances to exporters of HPS groundnuts and of deoiled and defatted cakes against the security of oil seeds &/or other raw material (e.g. groundnut, rice barn etc.) to the extent of the value of raw-materials required, even though the value thereof exceeds the value of the export order. The advance in excess of export order is required to be adjusted either in cash or by sale of residual groundnuts or by-products' oil, as soon as the selection of HPS groundnut/extraction of oil is completed but within a period not exceeding 30 days in case of export of deoiled and defatted cakes and 15 days in case of HPS groundnuts from the date of advance. The balance in the packing credit advance is to be adjusted by the proceeds of the relative export bills.

k) Interest Subsidy on Pre-shipment Advances. As mentioned earlier, under Export Credit (Interest Subsidy ) Scheme,1968, of RBI, banks are eligible for interest subsidy at the rate of 1.5 per cent per annum in respect of eligible pre-shipment and post-shipment advances granted by them at the rate of interest fixed by RBI for the stipulated period. The interest subsidy claim is generally lodged as "on account" claim through the central office /link office of the concerned bank. The branches are required to submit their interest subsidy claims in the stipulated formats on quarterly basis to their Central Office/Link Office to reach at their counters well in advance before the expiry of the next month. Banks are required to lodge "on account" Export Subsidy claims on prescribed forms with Reserve Bank of India within one month from the close of each calendar quarterly period. Bank claiming interest subsidy is not eligible for subsidy in respect
of: (i) any pre-shipment credit which is not repaid in the manner specified in the scheme; (ii) any pre-shipment credit for the period beyond the stipulated period for which higher rate of interest is charged. Subsidy claimed on these advances should be refunded to Reserve Bank. If any advance becomes ineligible for subsidy during the quarter in question, the ineligible products are to be deducted from the total of the respective eligible products. Similarly, any interest subsidy claimed on such ineligible products during earlier or previous quarter is required to be refunded and overdue interest is to be charged right from the date of advance to the date of adjustment.

1) Refinance From RBI. RBI is providing refinance to banks against outstanding export credit (pre-shipment and post-shipment) at bank rate. At present banks are entitled to refinance their credit to the extent of 125 per cent of the incremental outstanding advance over the average monthly outstanding on account of export advance (pre-shipment plus post-shipment) taking the base year 1982. This facility is to be used sparingly. It may be added here that refinance facility is further available to the banks from Exim Bank too against the usance bills purchased by them. However, no interest subsidy will be available to the extent, refinance is availed from the EXIM bank.

m) Requirements of ECGC. Advances granted to an exporter under packing credit qualify for Packing Credit Guarantees issued by Export Credit Guarantee Corporation. Pre-shipment advances given by banks to parties who enter into contracts for export of serv-
ices for construction work abroad to meet preliminary expenses in connection with such contracts are also eligible for cover under this guarantee. When the volume of pre-shipment finance is more, bank can opt for Whole Turnover Packing Credit Guarantee (WTPCG) whereby the premium is charged at a little lower rate than the individual Packing Credit Guarantees. The premium under WTPCG is payable on the "Daily Average Product" basis while under their individual guarantees it is payable on "Maximum Outstanding."

2. Advance Against Cash Incentives

2.13 Advance against Cash Incentives are generally granted at post-shipment levels. However, in exceptional cases, when the value of material to be procured for export happens to be more than the FOB value of the contract, considering the cash incentives available for the exportable commodities, the advances at pre-shipment level are sometimes granted for more than FOB value. These advances are of course, liquidated by the negotiation of export bills and out of receipt of cash incentive from the appropriate Government authority. Concessional rate of interest which is applicable to packing credit advance is also applicable to this type of advance. The interest subsidy is also available for 90 days on such advances. However, any advance, if adjusted otherwise than from proceeds of incentives, will attract overdue interest from the date of original advance till the date of its payment. Interest Subsidy claim, in such cases, shall also
be refunded. The above stated type of advance against cash incentives at pre-shipment level is required to be covered under Export Production Finance Guarantee of ECGC.

3. Advance Against Duty Drawback

2.14 In terms of Reserve Bank of India circular DBOD No. ECE, BC 11/C-297 M-76 Dated January 17, 1977, export credit can be given at pre-shipment level for an amount in excess of export order, the excess representing the amount of cash incentive or duty drawback recoverable from appropriate authorities, provided, of course, the transaction is covered by Export Production Finance Guarantee of ECGC. Since export documents are to be in the name of the exporter who alone would be entitled to cash incentives or duty drawback recoverable from appropriate authorities the inland LC in favor of sub-supplier can be issued for an appropriate higher amount so that the manufacturer gets packing credit to cover full manufacturing cost which may be more than the export value of the order.

II. POST-SHIPMENT FINANCE

2.15 The need for post-shipment finance arises because exporters who sell goods abroad have to wait for a long time before payment is received from overseas buyers. The period of waiting will depend upon the terms of payment. Based on different types of terms of payment different methods of financing are being devised.
1. Negotiation of Export Documents Drawn Under Foreign Letters of Credit (LCs).

2.16 Since 50 to 60 per cent of India's Foreign Trade is through letters of credit, the most important method of financing post-shipment credit is based on negotiation of documents. Under this method of financing, the exporter, after shipments, has to file with the bank the following set of documents: (a) Bill of Exchange, (b) Bill of Lading, (c) Marine Insurance Policy, (d) Commercial Invoice, (e) Certificate of Origin, (f) Inspection Certificate, (g) Packing List, and (h) Any other document prescribed by the custom and usage. If the documents are found acceptable exporters are provided with rupee equivalent in respect of their exports immediately. Interest and bank charges are included in the exchange rate at which the banks purchase the bills drawn in foreign currencies. In case of rupee export bills, a system of flat rate of discount is followed.

2.17 As trading under LCs involve many parties from different countries with different national laws and ways of interpretation for the same terms, it became imperative to adopt same terminology and same interpretation of the terms used in the LC to avoid disputes and to safeguard interest of the parties involved. With this intention, International Chamber of Commerce has brought out Uniform Customs and Practice for Documentary Credit. All banks in India have adopted the "Uniform Customs and Practice for Documentary Credit" (UCPDC), and they negotiate the export documents drawn under LC only of the LCs bearing a clause to the effect...
that the same is being issued subject to UCPDC.

2.18 When documents are presented to the bank for negotiation, bank undertakes a rapid check of the LC and the documents submitted thereunder. LCs are basically of two types viz. Revocable and Irrevocable. By virtue of the drawback attached to the Revocable LC that it can be canceled/amended at any moment without obtaining concurrence from the exporter, banks in India generally do not finance or undertake negotiation of export documents drawn under such type of LCs. Since Irrevocable LCs cannot be canceled or mended without the agreement of the parties thereto these types of LCs offer safety subject to all the terms and conditions of the LCs are complied with. Negotiation of documents under such LCs and financing thereunder is therefore undertaken by banks.


2.19 Purchase or discount facilities in respect of export bills drawn under confirmed export contracts are generally granted to customer who are enjoying Bill Purchase/Discounting Limits sanctioned by the Bank. Since in case of purchase or discounting of export documents drawn under export order, the security offered under LC by way of substitution of credit worthiness of the buyer by the issuing bank is not available, the bank financing is totally dependent upon the credit worthiness of the buyer i.e. the importer as well as that of the exporter beneficiary. The documents drawn on DP basis are parted with through foreign correspondent only when payment is while in case of DA bills, documents (including that of title to the goods) are passed on
the overseas importer against the acceptance of the draft to make payment on maturity. DA bills are therefore more unsecured than DP bills. Since the bank financing are open to the risk of non payment, banks in order to enhance security generally opt for ECGC policies and guarantees which are issued in favor of the exporter/banks to protect their interest on percentage basis in case of nonpayment or delay payment which is not on account of mischief, mistake or negligence on the part of exporter.

3. Advance Against Bills Sent On Collection Basis.

2.20 Sometimes, it is possible that there is no enough accommoda-
tion to cover the entire amount of the bill by purchasing under available limits sanctioned to the exporters or it may be possible that the documents drawn under LC are having some discrepancies and the bank is reasonably sure that the same will be acceptable to the buyer and that the bill will be paid. However, the bank does not want to take a risk. Under such situation considering the immediate need and financial requirement of the exporter, bank may finance to some extent out of the total bill amount under the heading "Advance Against Bill sent on Collection Basis," The amount advanced will be liquidated out of the proceeds of the export bill and the balance paid to the exporter.


2.21 Advances are also available against goods exported on con-
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Assignment basis. Exporter consigns the goods to his agent at the foreign country for sales and the relevant export documents are sent to the agent through his bank. The bank releases the documents after obtaining a 'trust receipt' from the agent, to enable the agent to take delivery of the goods and arrange for the sales. The agent then remits the proceeds to the exporter. But normally the exporter does not have to wait till then to obtain finance. Usually the consignee's bank will be opening a proforma letter of credit in favor of the exporter to cover the estimated value of the shipment. The procedure for realizing payment under a proforma LC is the same as that under a regular LC. The difference is only of the adjustment of the final claim which takes place only after the sales of goods at the foreign centre. Commodities usually exported on assignment basis include: Tobacco, Tea, Mica, Raw cotton, Wool, Pepper and such other goods as are sold in foreign auction centers.

5. Advance Against Undrawn Balance.

2.22 In certain lines of export it is the trade practice that bills are not to be drawn for the full invoice value of the goods but to leave small part undrawn for payment after adjustment due to difference in rates, weight, quality etc. to be ascertained after approval and inspection of the goods. Banks do finance against the undrawn balance if undrawn balance is in conformity with the normal level of balance left undrawn in the particular line of export subject to a maximum of 5 per cent of the value of
export and an undertaking is obtained from the exporter that he will within 6 months (in case of Afghanistan and Pakistan, 3 months) from the date of shipment of goods surrender balance proceeds of the shipment. Against specific prior approval from Reserve Bank of India the percentage of undrawn balance can be enhanced by the exporter and the finance can be made available accordingly at higher tune. Since the actual amount to be realized out of the undrawn balance may be less than the undrawn balance it is necessary to keep margin on such advance.

6. Advance Against Cash Incentives.

2.23 As we have discussed earlier, advance against cash compensatory support for cash incentive is made available to the exporters by the banks at pre-shipment as well as post-shipment level. But the major part of this type of advance is given at post-shipment level. In order to obtain advance under this scheme, the application for cash incentive to the authorities giving cash compensatory support should be routed by the exporter through the bank/branch granting the advance. An Irrevocable Power of Attorney is required to be executed by the customer in favor of the bank advancing, and empowering the bank to receive directly the payment from Government authorities against export incentives financed by the bank. Export incentives receivable is required under RBI instruction to be covered under Export Production Finance Guarantee when it is given at pre-shipment level and is backed by a foreign LC or foreign buyers contact and Export Finance Guarantee when it is given at post-shipment stage.
7. Advance Against Duty Drawback.

2.24 Duty Drawback Scheme 1976 was formulated by Reserve Bank of India which came into force from February 1, 1976. The Scheme is evolved as an export promotion measure for granting of advances by banks to exporters against Duty Drawback entitlement, as provisionally certified by customs authorities, pending final sanction and payment. Against the advances made by banks to exporters, refinance is available to banks from RBI up to 100 per cent of the amount of eligible loans reported by the banks. The refinance available to the banks is interest free and hence no interest is charged to the customer. However, in the event of advance continuing beyond the period of 90 days bank advancing will charge interest for the overdue period at a rate not exceeding ceiling rate for export credit instructed by RBI. No refinance from RBI is admissible in respect of any advance beyond 90 days.

2.25 Each exporter is required to obtain refinance number from the bank which is to be quoted on all shipping bills under which advance against Duty Drawback is sought to be obtained from the bank. The borrower shall irrevocably authorize the bank to receive the amount of Duty Drawback as sanctioned under Customs Act, 1962 by the custom house concerned in respect of shipments made by him. The borrower shall also agree that if within a period of 90 days no final duty drawback has been sanctioned or the amount of drawback sanctioned is less than the amount provi-
sionally determined, he will on being called upon by the bank, refund the entire amount advanced by the bank to him or the difference between the amount advanced or the amount as sanctioned, as the case may be.

2.26 Though as per the provisions of the scheme, banks are not supposed to charge interest on the advances granted under the scheme, banks are allowed to charge expenses incurred by them by way of administrative expenses or other instruments on behalf of the exporter under the scheme. The charges to be recovered from the exporters in terms of FEDAI Rules is the commission at the rate of 1.5 per cent with a minimum of Rs.10 of the entitlement as provisionally certified by the customs authorities. The amounts advanced under this scheme are not eligible for interest subsidy.

8. Export against deferred Payment Arrangements and Turkey Contracts.

2.27 Banks also provide finance for those exports which are made against deferred payment arrangements and turnkey contracts. Contracts providing for payment of certain portion of the relative invoice value as advance or down payment and the balance or down payment and the balance amount in installments spread over a period of time beyond the prescribed period, are treated as deferred payment export contracts. The facility of export of goods on deferred payment terms is available to Indian exporters only in respect of capital/producer goods, certain consumer durables and miscellaneous engineering goods (See Exhibit-3 of
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Appendix II) subject to compliance with certain minimum require-
ments.

2.28 Various aspects of export contracts require approval of
several institutions in India such as RBI, Exim Bank, ECGC and
the financing bank. With a view to obviating the necessity of
exporters to approach different agencies for obtaining approval
and avoiding delays, a Working Group comprising representatives
of above institutions with EXIM bank as the focal point is func-
tioning to grant package clearance to proposal submitted by
exporters for the contracts valued beyond Rs.1 crores. Bid for
supply of engineering goods on deferred payment terms, turnkey
contracts and civil construction contracts of a value not exceed-
ing Rs.1 crore are cleared by the authorized dealers in foreign
exchange in India in terms of powers delegated to them. However,
the Working Group clearance would be necessary where the small
value proposals (for Rs. 1 crores or less) have any unusual
features. In view of the large outlays/commitments and long
credit periods involved in this type of exports, Exim Bank, in
appropriate cases, enter into participation arrangements with
commercial banks for providing advances to manufacturers of goods
to be exported and also participate in issuing export performance
guarantees/advance payment guarantees and also guarantees for
overseas borrowings.

Provisions Relating To Interest Subsidy

2.29 As stated earlier, interest subsidy at the rate of 1.5 per
cent per annum is available to banks financing eligible export trade at concessional rate. Subsidy on post-shipment advance is payable bill-wise. The bank advancing against export bills can claim subsidy in case of bill drawn at sight for normal transit period and in case of usance bill up to notional due date comprising of normal transit period, actual usance and grace period. However, the maximum period for which subsidy can be claimed shall not exceed 180 days. The subsidy is available to the bank only if the bill is paid within 180 days from the expiry of transit period in case of sight bill and within 180 days from the expiry of the notional due date in case of usance bill and bank has charged concessional rate of interest, as advised by RBI for the period of transit in case of sight Bill and for the period of usance plus transit plus grace period, if any in case of usance bill.

2.30 For loans against goods sent on consignment basis interest subsidy is available to banks for a maximum period of 180 days. However, if the amount is short realized and/or not realized, overdue interest has to be charged right from the date of advance till its realization and subsidy is to be refunded partly and/or fully as the case may be. Advances against Cash Incentives receivable may be considered either at the pre-shipment or post-shipment stage. At present, subsidy is available for 90 days. Concessional rate of interest which is applicable to pre-shipment advance is also applicable to this type of advances. If, however, any advance is adjusted otherwise than by proceeds of incentives it will attract higher rate of interest from the date of origi-
nal advance to the date of its repayment. Subsidy claimed on such
advances is also refunded.

2.31 Subsidy on advance against export bills sent for collection
is also available to the bank advancing and all subsidy rules
which are applicable to post-shipment advances are also applica-
able to such type of advances.

SPECIAL CONCESSIONS IN THE PRE-SHIPMENT AND POST-SHIPMENT
SCHEMES.

2.32 In view of special circumstances and trading practices in
export of certain commodities, some requirements of the pre-
shipment and post-shipment schemes have been modified. We may
mention these modifications from the angle of investigating their
probable impacts.

1) Jute Manufacturers: In cases where jute goods are shipped by
export houses or merchant exporters, the banks are authorized to
make packing credit advances to a jute manufacturing mill even in
the absence of a letter of credit or export order in its favor
provided a letter is issued by the export house setting out the
details of the export order and also certify that the concerned
export has not obtained and will not ask for packing credit
facility in respect of that portion of the order which is to be
executed by the jute mill itself. The export house is also

1.DBOD No. B.M. 783/C. 297(A)-68 dated 17 May 1968
required to open inland letter of credit in favor of the jute mill giving relevant particulars of the firm export orders and the outstanding in the packing credit account of the mill will be extinguished by negotiation of the bills under such inland letters of credit. In the alternative, the mill may draw bills on the export and adjust the packing credit advances from the proceeds of such bills. However, in either case, the bank concerned will require the jute mill to produce a quarterly certificate from the export house that the goods purchased under this arrangement have in fact been exported. In the case of a mill manufacturing jute goods both for domestic and export purposes, the banks are to determine its requirements of export finance, fix an appropriate limit for packing credit advances, and segregate this limit from the limits sanctioned for domestic purposes. Packing credit facilities to these mills, by way of a cash credit/overdraft limit, are allowed to cover the period from the point of purchase of raw materials up to the stage of exports.

2) Cashews: The packing credit advances to the exporters of cashews cover the period beginning with the stage the raw cashew nuts covered by the import bills are pledged or hypothecated to the bank and ending with the negotiation of the relative export bills. Where the borrower is unable to tender export bills of equivalent value due to the shortfall on account of the wastage involved in the processing of raw cashew nuts, the export bills

1. This procedure is applicable to any kind of suppliers who do not have export orders / LC in their own name but are exporting through export houses (DBOD No. 1152/C-297 (M)-69 Dated: 11 July, 1969).
drawn in respect of cashew shell oil can also be put through the account to ensure that the entire amount advanced to the borrower is adjusted by proceeds of export bills only. The banks are required to effect adjustments in each of the accounts, namely pledge account, hypothecation account, out-agency account etc. by necessary transfers from one account to the other and finally extinguished by the proceeds of export bills.

3) Coffee: The lodgement of export orders or letters of credit is no longer a prior condition for obtaining packing credit advances by the coffee exporters; these documents however, are required to be lodged with the banks within a reasonable time of the grant of the advance. Secondly, the lending banks are required to make the payment for the coffee purchased by the exporters direct to the Coffee Boards.

4) Diamonds: Banks have been allowed to make pre-shipment advances or packing credit to the exporters of diamonds, precious and semi-precious stones, pearls and synthetic stones without insisting on the lodgement of letters of credit/firm export orders. Past export performance as well as export performance guarantee, if any, to be given by the exporter are considered adequate for sanctioning a limit to the exporter. The pre-shipment credit can be given to the exporter in a separate account from the stage the rough precious stones etc. are imported


by him or purchased locally for the purpose of processing (i.e., cutting polishing, etc.) for ultimate export. RBI had further impressed upon the banks the need for meeting the requirements for export credit on priority basis and, wherever necessary, extending increased finance to exporters of diamonds. Banks were asked to review again the sanctioned limit for pre-shipment and post-shipment finance extended to diamond exporters and to ensure that wherever necessary, increased finance is made available to them to meet their genuine credit requirements on merits. In view of accumulated finished stocks, banks may consider extending pledge facilities to small diamond exporters (non-sight holders with export turnover of less than Rs. 25 lakhs) taking adequate safeguards for valuation of the diamonds and for their proper safe custody and insurance while in their possession.

5) Tobacco: In cases where finance is provided by a bank to a tobacco exporter for procuring, curing, drying and processing etc. of raw tobacco and exporting the finished products, the relative advances, though given at the different stages of the process and under different accounts, are now treated as packing credit advances for export of finished products. Similar treatment is also accorded to the exporters of dressed bristles. In

2. DBOD No. ECC. BC. 45/C. 297 (0) (12) -78 dated 29th March 1978
1983, RBI issued the following guidelines to enable banks to effectively participate in financing of Tobacco export trade: (i) No overdue interest should be charged when the delay is between the branches of the same bank; (ii) As undrawn balances also represent export earnings such realizations should also go to adjust the pre-shipment credit; (iii) As the tobacco buying season commences by the middle of February every year, banks should expeditiously scrutinize the credit proposals received and accord sanction to the exporters by the middle of January, so that the purchase operations are not hampered; and (iv) Interest at quarterly rests may be debited to the packing credit account itself so that when compounded, the rate applicable would be that chargeable to pre-shipment credit. This procedure would be all right only so long as the interest amount so debited also gets adjusted against export realization. Where, however, interest payments are made from other than permitted sources, the interest debit would cease to be construed as export credit and would be liable for interest applicable to domestic credit.

6) Machine Tools: Since bonafide manufacturer/exporters of machine tools generally maintain sufficient stocks of these tools before receiving firm export orders, they are now allowed to avail of packing credit advances without prior lodgement of a firm export order or letter of credit provided these goods are held as security in a separate account and an undertaking is obtained from them that the relative goods are reserved for

1.IECD No.EFD. B.C. 1323/C 297 P-83 Dated May 3, 1983
exports and that the relative export order/LC will be lodged with the lending bank as soon as possible.

7) **Exports of Tea to Sudan**: In order to overcome the difficulties experienced by the exporters of tea to Sudan and ensuring that they do not suffer for the want of bank finance in respect of viable and bankable export order, it has been decided that wherever bills have been paid by the importers in local currency in Sudan but payments in foreign exchange have not been received to the credit of nostro accounts, banks may give additional adhoc limits to the exporters to enable them to export tea to countries other than Sudan provided such orders are backed by Letters of Credit and ECGC cover.

8) **Leather**. In the case of hides and skins and allied finished products, banks can mark off individual export bill as they are received for negotiation against the earliest packing credit advance. This facility may be made available in respect of packing credit for export of finished leather also. It is permissible for banks to extend pre-shipment finance to regular exporters of hides and skins and allied products on the strength of their past performance and capacity for undertaking the exports for which the finance is sought, even if they are unable to produce letters of credit of firm export orders. It will be in order for

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3. DBOD. No. BM 883/C. 297 (A)-68 Dated June 5, 1968
4. Ibid.
banks to allow the exporters to adjust the outstanding from the proceeds of export bills drawn on other importers either in the same country or in any other country, provided the relative bills are in respect of the same goods for which the pre-shipment credit was originally given and the export under the substituted contract takes place within a reasonable time.

INTEREST RATES STRUCTURE ON EXPORT CREDIT

2.33 With the objective of furnishing credit to exporters at reasonable cost, the Reserve Bank has been prescribing ceilings on interest rates to be charged by commercial banks. The practice started since August 1967 when it prescribed a ceiling of 6 per cent in respect of packing credit for export of engineering and metallurgical products, and 8 per cent in respect of packing credit or export of other products and export bills. These ceilings were applied irrespective of the fact that bank had sought refinance from the RBI or not.

2.34 In March 1968, the Reserve Bank, by means of a directive, fixed the ceiling at a uniform rate of 6 per cent of all types of export credit i.e. both pre-shipment and post-shipment credit, the practice of prescribing the maximum rate of interest on advances by the larger Indian banks and foreign banks was discontinued in January 1970. Nevertheless RBI continued to maintain

1. DBOD. No. ECC. BC. 19/C 297P-76 Dated February 9, 1976.
the ceiling rate of 6 per cent on export credit granted by
banks; this rate was raised to 7 per cent in April 1971. However,
the maximum rate of interest on post-shipment credit for
exports on deferred payment terms continued to be 6 per cent.
The minimum rate on export credit (other than deferred payment
terms) was raised from 7 per cent to 8 per cent in Nov. 1973 and
again to 9 per cent in April 1974. The period for which export
credit is eligible at the concessional rate was also reduced from
180 days, except in the case of post-shipment credit for exports
to the Western Hemisphere. The ceiling rate on deferred credit
remained at 6 per cent until April 18, 1974. From 19th April
1974 it was raised to 7 per cent.

2.35 In July 1974 consequent on the general increase in the
lending rates of banks, the maximum rate of interest on export
credit was raised from 9 per cent to 10.5 per cent, excepting in the
case of post-shipment credit given on deferred payment terms.
The ceiling rate of interest on post-shipment credit given on
deferred payment terms was maintained until 24th September 1974
at 7 per cent, when following the introduction of a tax on inter-
est earned by banks it was raised to 8 per cent. Simultaneously,
the maximum rate of interest on other export credits was also
stepped up from 10.5 per cent to 11.5 per cent.

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Bombay: RBI. P. 271.
2. Ibid.
2.36 The concessional ceiling rate of 8 per cent was applicable only for post-shipment credit given on deferred payment basis for more than one year irrespective of whether the amount is payable in lump sum or in installment. In respect of loans and advances granted against duty drawback and cash incentives, at the pre-shipment or post-shipment stage, the ceiling rate was made applicable up to a period not exceeding 90 days.

2.37 The duration of concessional rate of interest which was available for packing credit was limited to 90 days and banks were allowed to charge 'normal' rates on outstanding beyond this period. Since international developments warranted provision of some additional incentives to the export sector, it was announced as part of the 1975 slack season policy, that the period for which concessional rate of interest at 11.5 per cent would apply would be extended from 90 days to 180 days in the case of pre-shipment credit for specified medium and heavy engineering goods and construction contracts abroad. When factors beyond the control of the exporter necessitated a longer period of pre-shipment credit, banks were directed not to charge a rate of interest exceeding 13.5 per cent for a further period of 90 days in the case of specified medium and heavy engineering goods and construction contracts abroad.

2.38 In the case of other packing credits the period for which

concessional rate of interest at 11.5 per cent is applicable would continue to be 90 days. However, if for similar reasons, pre-shipment credit had to be given for a longer period, banks were advised not to charge a rate of interest exceeding 13.5 per cent for a further period up to 45 days.

2.39 Effective March 1, 1978 the rates of interest were reduced by 0.5 per cent points, from 11.5 per cent to 11 per cent. The maximum rate was also reduced from 13.5 per cent to 13 per cent. The ceiling rate on post-shipment export credit given on deferred payment terms continued at 8 per cent. The rates of interest applicable to the export credit not otherwise specified were reduced substantially from 17.5 per cent to 16 per cent. The rates continued until 30th June 1980, but with effect from July 1, 1980 the rates become higher. The minimum rate was increased from 11 per cent to 11.85 per cent and the maximum rate was increased from 13 per cent to 14 per cent. Even the ceiling rate on deferred credit were also raised from 3 per cent to 8.65 per cent. In April 1983, as a part of general downward adjustments in the interest rates structure, the interest rates on export credit were also lowered by half per cent point for specified periods from April 1, 1983. Ceiling rate on pre-shipment and post-shipment credit beyond the stipulated periods was reduced by one per cent point. The rate on post-shipment credit extended on deferred payments terms remained unchanged. The maximum rate chargeable on pre-shipment credit was again reduced to 14 per cent.

1. Ibid.

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cent with effect from April 1, 1985. Keeping in mind the urgent need to boost the country's exports, the lending rates on export credit both pre-shipment and post-shipment were reduced by 2.5 per cent point with effect from August 1, 1986. The rate of interest on deferred export credit for periods beyond one year (8.65 per cent) and the ceiling rate on export credit (i.e. not exceeding 16.5 per cent) however, remained unchanged. Subsequently, effective April 1, 1987 the ceiling rate on export credit was reduced to 15.5 per cent. A detail account of the changes made on ceiling rates on export credit has been given in Tables 2.1 & 2.2. The period of post-shipment credit for exports (other than those on deferred payment basis for periods exceeding one year for which the finance is available at the concessional rate of interest) was enhanced from 128 days to 180 days effective February 1, 1979. This was effected to make exports more competitive and also to provide for longer shipment period required for countries particularly in the Western Hemisphere. In December 1980, the period of pre-shipment credit was also increased from 135 days to 180 days in respect of certain items (See Exhibit 4 of Appendix II). It was represented by a number of exporters and also by Export Promotion Councils that due to constraints arising out of transport difficulties, power shedding, congestion in ports, etc., the period of pre-shipment credit at concessive rates of interest presently allowed, was inadequate. The matter was examined by the RBI in consultation with Government and keeping in view the nature of products, their export potential, time taken for manufacture, impact of various constraints experi-
enced by exporters and other relevant factors, it was decided that in respect of certain items the period may be increased. The changes, from time to time in the period of concessional interest rates have not been tabulated in Table 2.1, which shows the interest rates on export credit. This indicates the existing provisions alone.

1 SCHEMES OF INDUSTRIAL DEVELOPMENT BANK OF INDIA

2.40 In the beginning, IDBI's efforts for export financing could not assume a major role. In March 1976, when the IDBI was completely reorganized, a separate wing, known as International Finance Wing, was given status equal to Domestic Financing Wing and was placed under the charge of an Executive Director who had been given considerable delegated authority for decision making. The International Finance Wing was designed to function as an export-import bank in line with the recommendations of the Export-Import Bank Committee appointed by the Government of India in 1974. As a result of the upgrading of Export Department in the International Finance Wing, suitable staffing of the division and appropriate delegation of authority, the export financing was highly strengthened. The effect of these measures were reflected in the sanction and disbursement of export assistance which showed a sharp increase during and after 1976.

2.41 In order to finance, facilitate and promote exports the IDBI formulated various schemes. In order of their origin, the

1.IDBI: Annual Reports and Pamphlets.
Bank operated the following schemes:


1. REFINANCE OF EXPORT CREDIT.

2.42 This scheme was originally introduced by Refinance Corporation for Industry (RCI) in January 1963. After taking over the business of RCI in September 1964, the IDBI continued operating this scheme. Under this scheme, refinance facilities were provided to eligible banks, which are authorized dealers in foreign exchange, against medium term export credit granted to exporters in private sector, who were manufacturers, recognized export houses or other exporters of standing. The scheme also provided for refinancing of pre-shipment credit where it was combined with post-shipment credit, but the total period of credit excluding pre-shipment credit should not be less than six months or more than five years. Under this scheme a down cash payment of 20 per cent or a letter of credit or guarantee providing for payment to that extent against delivery of shipping documents had also to be obtained from or on account of the importer before the loan is refinanced. The other major terms of this scheme were as discussed below.
(a) Amount of Credits: The scheme as it was originally introduced prescribed a maximum limit of Rs. 50 lakhs in respect of refinance of loans to any one exporter and a minimum limit of Rs. 1 lakh in respect of individual loans. In December 1963, it was decided to extend refinance in respect of credits for less than Rs. 1 lakhs. In the interest of export promotion, the provision that the export contract should be for a minimum amount of Rs. 1 lakhs was also removed by the IDBI in May 1965.

(b) Duration of Credits: Initially credit allowed under this scheme was for the period exceeding six months but less than five years. In August 1967, the maximum period of export credit was extended in respect of capital goods from 5 years to 7 years in deserving cases and up to 10 years in exceptionally deserving cases. This period was further extended to 15 years in the year 1974 when IDBI Act. was again amended. The extension up to 15 years was subject to the transactions satisfying the other terms and conditions of the scheme.

(c) Rate of Interest: Refinance of export credit was provided at a concessional rate of interest which was 4.5 per cent in the beginning, provided the bank charges to the borrower not more than 6 per cent. This rate of interest was increased by 1 per cent with effect from May 1, 1974. After increase, the IDBI's rate of interest on refinance of export credit was raised to 5.5 per cent. However, it was decided that IDBI will charge pre-revision interest rates to the transactions where it had already agreed, in principle, to extend finance. Provided the
borrowing/participating bank also charged the corresponding pre-revision rates.

(d) Scope Enlarged: The scope of the scheme was enlarged in August 1967, with the object of stimulating the flow of credit to the export sector and to enable Indian Exporters of capital and engineering goods to compete more effectively in the international markets. The scheme was extended, now, to cover finance for the overall cost of construction contracts. The scheme was also extended to exporters in the public sector.

2. DIRECT LOANS FOR EXPORTS.

2.43 This scheme was introduced by the Bank in the year 1968. The basic purpose of introducing this scheme was to enable Indian exporters of capital and engineering goods and services to compete more effectively in the international markets. Under the scheme of refinance of medium-term export credits, the entire risk was born by the borrowing bank. It was felt that the commercial banks may hesitate in entering into larger projects because of heavy risks involved. In this new scheme the IDBI was to borne the major part of the risk. Under this scheme, IDBI provided direct term-finance at a low rate of interest to exporters in collaboration with commercial banks. The scheme contained the provisions of granting export credits both for pre and post-shipment stages for periods exceeding 6 months. Under this scheme, IDBI charged 4.5 per cent on its portion of the export credit, and the partic-
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ipating bank its own rate on its portion not exceeding 6 per cent (the ceiling rate prescribed by the RBI at that time). This scheme ensured credit to the exporter at a flexible and relatively low rate depending on the extent of IDBI participation which is determined, on the merits and needs of each case, in consultation with the concerned banks.

3. EXPORT GUARANTEES.

2.44 The scheme of export guarantees was introduced during 1968, along with the scheme of direct export loans. At this time there was strong feeling that with the emphasis on the need for export of capital and producer goods continually growing and the amount of credits required on a term basis by intending manufactures/exporters coming to be larger, the Bank had to step up and deepen its commitment in this field. Otherwise the commercial banks might not by themselves be able or willing to carry larger risks and provide the entire term finance and guarantee facilities required by exporters. It is, for this reason that the guarantee scheme was also introduced along with the scheme of direct finance. The guarantee facilities are also provided both in the public and private sectors. The main objective of the scheme was to provide guarantees regarding: performance of contracts, advance payments which exporters secure from the importers and raising overseas borrowings.
4. FOREIGN LINES OF CREDIT.

2.45 This scheme was introduced by IDBI pursuant to an agreement reached between the Planning Commission of India and Bangladesh in 1973, whereby it was agreed that commercial credit up to Rs. 25 crores be extended by India to Bangladesh to finance the imports of certain capital goods from India. Under this scheme IDBI extended line of credit to overseas governments or institutions nominated by them, to enable buyers in those countries to import capital and engineering goods from India on deferred payment terms. This facility enabled Indian exporters to offer deferred payment terms to customers in those countries, as per terms and conditions negotiated between IDBI and the overseas government. The exporters were to obtain payment from IDBI against negotiations of shipping documents without recourse to the importers.

2.46 The terms and conditions of different lines of credit were subject to variation. The rate of interest charged was such that after taking into account the participating banks rate, the average rate payable by the exporter on the entire credit was generally 6.5 per cent during 1973-74 and 7.75 per cent during 1980-81.
5. OVERSEAS BUYERS CREDIT.

2.47 As a follow up action on the recommendations of the Sub-Group on buyer’s credit and with a view to promoting exports effectively, certain amendments to the IDBI Act have been carried through in December, 1972. As a result of these amendments, IDBI is empowered to grant credits directly to foreign importers under the buyer’s credit system of financing in connection with exports of capital goods from India. Accordingly, the IDBI introduced Buyer’s Credit Scheme in the year 1973. This scheme enabled IDBI to grant credits to the foreign buyers in participation with commercial banks in India, for exports of capital goods from India for financially self-supporting projects. While no maximum limit for such credit was stipulated applications in respect of high value contracts of minimum of Rs. 1 crores or more were normally considered. This type of credit to the foreign buyer did cost 6.5 per cent per annum.

6. OVERSEAS INVESTMENT FINANCE.

2.48 Under the Overseas Investment Finance Scheme, introduced in March 1979, the IDBI finance overseas equity investments by Indian exporters in their joint ventures abroad. The finance is made available to the promoters by way of term credits. No mini-
mum or maximum limits of the size of credit have been laid down. Interest is levied at the normal lending rate of the IDBI, which was 11.85 per cent in 1979-80 and 12.5 per cent in 1980-81. The loan is secured by a pledge of the shares acquired in the joint ventures, the assignment of receivable by way of know how fees, royalties, dividends etc. and if necessary by a charge of the borrower's assets. Finance under the scheme is ordinarily provided in participation with the promoter's banker; but, if considered necessary, the IDBI might extend the entire loan by itself.

7. PRE-SHIPMENT CREDIT

2.49 The Pre-Shipment Credit Scheme was introduced by the IDBI in March 1979. Under this scheme, the IDBI may participate with eligible commercial banks in appropriate cases in the provision of pre-shipment credits up to 50 per cent thereof. The period of these credits, which would normally not be for less than six months was determined on the basis of the manufacturing cycle, the procurement period, the production and delivery schedules, etc. in relation to the export order. The security available to the participating bank was shared by it with the IDBI on a pari-passu basis. The participating bank used to act as an agent of the IDBI and looked after the operational aspects of the credit. In 1979-80, the rate of interest applicable to this type of credit was 11.85 per cent which was raised to 12.5 per cent in 1980-81.
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SCHEMES OF THE EXPORT IMPORT BANK OF INDIA

2.50 The Export Import Bank of India is the principal financial institution in India for co-ordinating the working of institutions engaged in financing export and import trade. The Bank has been playing a catalyst role in the promotion of India's exports, and has crossed the stages of childhood and adolescence. Keeping in view its objective of financing, facilitating and promoting foreign trade of India, it has evolved various schemes and offered various facilities. Exim Bank extends finance to exporters of capital and manufactured goods, exporters of software and consultancy services and to overseas joint ventures and turnkey/construction projects abroad. Project exporters can also avail of guarantee support and multi-currency financing facility. Term loans are also extended to projects located within India in export zones. Exim Bank financing can also supplement working capital finance extended by commercial banks at pre-shipment stage. Various programs of Exim Bank can be classified under two broad heads viz. Funded Programs and Non-Funded Programs.

I. FUNDED PROGRAMS

2.51 Funded financial assistance on competitive credit terms is extended to enable Indian exporters to operate in International Markets. Funded assistance may be described as the assistance 1.

1. Adapted from various pamphlets of EXIM Bank.
which require immediate commitment of funds on the part of Exim Bank. To begin with it started functioning with the six funded schemes as were operated by the IDBI. Over the years, it added many new dimensions to the funded schemes, and at present it is operating as many as thirteen programs. These programs may further be classified according to user groups as under.

A. LENDING PROGRAMS FOR INDIAN COMPANIES/OTHER EXPORTERS:

1. Direct Financial Assistance to Exporters.
2. Overseas Investment Finance.
3. Finance for Export Oriented Units.
4. Term Finance for Export Production.
5. Pre-Shipment Credit.
6. Consultancy and Technology Services Finance.
7. Lending Program for Computer Software Exports.

B. LENDING PROGRAMS FOR FOREIGN GOVERNMENTS, COMPANIES AND FINANCIAL INSTITUTIONS:

8. Overseas Buyer’s Credit.
10. Relending Facility to Banks Overseas.

C. LENDING PROGRAMS FOR COMMERCIAL BANKS IN INDIA:

11. Export Bills Rediscounting.
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13. Refinance Assistance.

THE FEATURES

1. Direct Financial Assistance to Exporters

2.52 Under this scheme assistance is provided in the form of credit on medium term basis for periods exceeding six months to enable the exporters to extend deferred credit to the overseas buyers. Indian exporters of plant, equipment, machinery and related services are eligible for assistance under this scheme. Assistance under this scheme is generally extended in the form of deferred payment supplier’s credit foreign currency and rupee term loans to project exporters and finance for export of consultancy and technology services. So far, the scheme could facilitate exports of products like commercial vehicles, transport equipments, textile machinery, mining equipments, glass making machinery, construction projects and transmission line projects. As per the provisions of the scheme the assistance may be granted in participation with commercial banks, but commercial banks were hesitant in assuming larger risks involved in the bigger projects. After the introduction of export Risk Syndication Scheme (discussed later) commercial banks have been encouraged to assume part of the risk of Exim’s funding for various export contracts (in return for a contract). The rate of interest charged on the financial assistance extended by the Exim Bank has been 8.5 per cent per annum.
2. Overseas Investment Finance

2.53 The facility is extended to Indian promoters of overseas joint ventures to finance their equity investment in the form of export of plant and machinery or cash remittances. By virtue of this scheme, Indian entrepreneurs have become able to set up joint ventures abroad. Interest at the rate of 12.5 per cent per annum is charged on the funds extended under this scheme. The industries which generally attract assistance under this scheme are: the manufacture of hot water bottles, rubber gloves, steel profiles and sections, dyes and dyes stuffs, pharmaceuticals etc. The funds under this program are utilized largely for: financing overseas investment in chemicals and processing and other engineering plants, mining machinery, textile machinery etc.

3. Finance for Export Oriented Units

2.54 This program was introduced by Exim Bank during 1984 to provide term finance for export oriented units. Under this lending program Exim Bank offers financial assistance to export oriented units on concessionary terms with a view to enhance their competitiveness in overseas markets. Export oriented units set up in Free Trade Zones and units recognized by Government of India as hundred per cent export oriented are eligible for financial assistance under this program. Under this program Exim Bank provides term loans and deferred payment guarantees for the acquisition of land, building, plant and machinery and other miscellaneous fixed assets along with related services.
assistance is available for setting up new projects or for expansion/diversification of existing projects. Foreign currency finance can also be arranged for acquisition of imported plant and machinery. In large value projects Exim Bank would provide consortium financing in co-operation with all India term lending institutions i.e. IDBI, ICICI and IFCI. Refinance to commercial banks will be available for projects with cost up to Rs. 2 crores. The rate of interest chargeable to rupee term loans for procurement of Indian plant and machinery and related services is 9 per cent per annum. For rupee term loans for acquisition of other assets including imported plant and machinery, land and building the present interest rate is 12.5 per cent per annum. For refinance a spread of 1 per cent per annum will be allowed in favor of lending banks subject to the condition that the effective interest rates to the borrower will not exceed the rates applicable to direct finance provided by Exim Bank. For deferred payment guarantees, guarantee commission at a rate of 1 per cent will be charged. A commitment fee will be charged on the undrawn loan amount during availability period. Repayment period of term loans is determined on the basis of the projected cash flow. The maximum period, however, will not ordinarily exceed 10 years inclusive of suitable moratorium period. So far, the assistance under this scheme has been utilized to set up export oriented units for computer software, electronics PABX, ceramics, textiles, pharmaceuticals, toiletries, garments, silk fabrics, finer count jute yarn, granite slabs and tombs, titanium equipment etc.
4. Term Finance for Export Production

2.55 This scheme was appeared in the year 1986 when Exim Bank concluded agency credit line of US $ 15 million with International Finance Corporation (IFC), Washington. Under this Credit Line, financial assistance by way of foreign currency term loan available from IFC to private sector Small and Medium Enterprises in the country for investment in plant and machinery, product and process know-how to create and enhance export capabilities. Exim Bank provides rupee term loans on matching basis to the assisted enterprises. Activities eligible for financial assistance, under this scheme, are new projects, expansion or modernization projects, and equipment imports. It is the first agency line of credit from IFC to an Indian financial institution. The year of 1987 was first full year of operations for Agency Credit Line lending program for export production.

5. Pre-shipment Credit

2.56 Pre-shipment credit scheme is one of those schemes which Exim Bank has inherited from IDBI. Under this program financial assistance at pre-shipment stage, is available to eligible exporter for procuring raw materials and inputs required to produce equipment that has to be exported. Under this scheme only those products can avail financial assistance whose manufacturing cycle exceeds 180 days. Pre-shipment credit facilities are also available to deemed exports. Facility to deemed exports is extended by
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Exim Bank in participation with commercial banks. Rate of interest charged to the credit extended under this scheme is 9.5 per cent per annum. Products covered so far under the scheme are earth moving equipments, specialized steel pipes for irrigation projects and textile machinery.

6. Consultancy and Technology Services Finance

2.57 This program is one of those three programs which were started by Exim bank in its first year of operations i.e. in 1982. Indian companies, executing overseas contracts involving consultancy and technology services, can avail of Exim's this program, to offer deferred payment terms to their clients, thereby enlarging the market for Indian consultancy exports. Indian consultants, having corporate status or otherwise, who have secured a contract for export of services where in deferred payment terms need to be offered to the client, can utilize the facility. The credit may be extended to the Indian company either by Exim bank in participation with commercial banks or directly by commercial banks, who could seek refinance from Exim Bank. The Indian company would in turn, offer deferred payment terms to the client. Generally, the assistance granted under this scheme is in the form of Indian Rupees. But loans in other currencies can also be considered, if required. The rate of interest on rupee credit is 9 per cent. In case of refinance to Banks, interest rate charged by Exim Bank is 8 per cent per annum, while the rate to the Indian company would be 9 per cent. The loan is generally granted for a period not exceeding 5 years, with a suitable grace
7. Program For Computer Software Exports

2.58 In 1987 Exim Bank introduced a new program to finance Computer Software Exports. This is in accordance with the Government of India's policy on computer software export announced in December, 1986. Under the Software Policy, Exim Bank has been named as a source of foreign exchange for software exporters undertaking 350 per cent export obligation. In respect of such Exim Bank scrutinized proposals, clearance for import is given by chairman of the Inter-Ministerial Standing Committee in the Department of Electronics, normally on the basis of Exim bank recommendations. The Program for Computer Software Exports (PCSE), offers foreign currency and rupee term finance to software exporters. Program for Computer Software Exports has two clear channels—those who seek finance and clearance under Exim track (at 350 per cent export obligation) and those who seek only financial assistance (necessarily rupee term finance). Exim Bank's PCSE is addressed to both new and existing software export organizations. In case of Exim track proposals, import of hardware is eligible for a rebate of 50 per cent on custom's duty. Exim Bank undertakes techno-financial scrutiny of proposals and operates a system to monitor the progress of software export projects financed by the bank. Assistance under this program is provided for a maximum of 5 years period. Assistance is extended by way of direct finance co-finance or refinance to commercial banks in respect of rupee term loans extended by them for the export projects. Foreign
currency loans will be denominated in US $ and subject to availability, in other convertible currencies. The rates of interest chargeable will vary according to the period of loan. The existing interest rate structure applicable to PSCE are as follows:

- **Term Loan in Rupees**
  - 11.5 per cent per annum

- **Term Loan in foreign Currency**
  - 1 per cent Spread over cost of funds

- **Working Capital Loans:**
  - Up to 180 days: 9.5 per cent per annum
  - Beyond 180 days: 11.5 per cent per annum
  - Beyond 270 days: 16.5 per cent per annum

In case of refinance, commercial banks will be allowed a spread of 1 per cent per annum subject to the condition that the effective interest rate to the borrower will not exceed the rate applicable to direct finance provided by Exim Bank.

8. **Overseas Buyer’s Credit**

Overseas buyer’s credit facility is offered direct to foreign importers for import of Indian Capital goods and related services with repayment spread over a period of years. This facility enables overseas buyers to pay cost of eligible goods imported from India on deferred terms. Generally, this credit is extended for large value contracts, Exim bank extends this facility, normally in participation with commercial banks. Rate of interest charged by the Exim bank from overseas buyer is 9.5 per
cent per annum. Repayment period is flexible under this program but normally does not exceed 10 years.

9. Foreign Lines of Credit

2.60 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 as per terms and conditions already negotiated between Exim Bank and overseas government. The exporters can obtain payment from Exim Bank against negotiation of shipping documents/without recourse to the exporters. The facility is available to sovereign governments or agencies nominated by them. Such governments/agencies are deemed to be the borrowers, with Exim bank as the lender. Terms and conditions of different lines of credit are subject to variations.

10. Relending Facility to Bank Overseas

2.61 Relending facilities to banks overseas is made available to enable them to provide term finance to importers, for import of Indian capital goods. Banks overseas would intermediate between foreign buyer and Exim Bank and the latter would intermediate with the supplier. The borrowing bank may be a commercial bank, a Central Bank, or an investment/merchant bank of the country. The goods covered under the scheme are: capital goods, equipments and
services to be exported from India. The credit line limit for each bank would normally be US $ 5 million to 10 million and may be raised to US $ 15 million, if prospect of use justified it. Such loans are extended normally for a period between 2 years to 5 years. The rate of interest chargeable at present is 8 per cent per annum.

11. Export Bills Rediscounting

2.62 This new program was introduced by Exim Bank in March 1982. Exim Bank provides funds, under this program, for a period not exceeding 90 days against short term usance export bills that have an unexpired usance of maximum 90 days. Commercial banks in India who are authorized to deal in foreign exchange can rediscount their short term export bills with Exim Bank for unexpired usance period not exceeding 90 days. This program enables banks to fund post-shipment export credit extended to Indian Exporters. The limit authorized by the Reserve Bank of India for this program is Rs. 500 million. The rate of interest chargeable to such assistance is 7.5 per cent per annum.

12. Small Scale Industry Export Bills Rediscounting

2.63 During 1985, Exim bank introduced a new lending program, the Small Scale Industries Export Bills Rediscounting Program, in order to facilitate exports from the small scale industry sector. Under this program commercial banks can rediscount eligible
export bills of small scale industry exporters. The limit authorized by RBI for this program is Rs.500 million. The maximum period for which assistance can be extended is 90 days. The rate of interest chargeable is 7.5 per cent per annum.

13. Refinance Assistance

2.64 Under this program, commercial banks in India who are authorized to deal in foreign exchange can obtain hundred per cent refinance of medium to long term post-shipment credits extended to Indian exporters of capital goods. Refinance can also be provided to cover retention money receivable after the six month period. For export contracts up to Rs. 2 Crores, automatic refinance facility is available for proposals beyond Rs. 2 crores, though Exim Banks in-principle approval at big stage is required. For the purpose of refinance, eligible goods are divided into two groups - Group A and Group B. An illustrative list of these goods is given in Exhibit-5 of Appendix II. Group A comprises capital and producer goods. Group B goods comprising consumer durables and industrial manufacturers normally exported on cash terms, can also be considered for deferred credit. The period of credit is determined on the basis of the value of contract and nature of goods covered:
Chapter Two

<table>
<thead>
<tr>
<th>Contract Value</th>
<th>Maximum Credit Period</th>
<th>Group A</th>
<th>Group B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to Rs. 10 lakhs</td>
<td>3 years</td>
<td>1 year</td>
<td></td>
</tr>
<tr>
<td>Above Rs. 10 lakhs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to Rs. 50 lakhs</td>
<td>5 years</td>
<td>2 years</td>
<td></td>
</tr>
<tr>
<td>Above Rs. 50 lakhs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to Rs. 1 crores</td>
<td>8 years</td>
<td>2 years</td>
<td></td>
</tr>
<tr>
<td>Over Rs. 1 crores</td>
<td>11 years</td>
<td>2 years</td>
<td></td>
</tr>
</tbody>
</table>

The maximum interest charged by the Exim bank to commercial banks would be 7.65 per cent per annum.

OTHER MODES OF EXIM BANK'S ASSISTANCE

1. Exim Bank Facilities For Deemed Exports

Exim bank introduced in 1984 a new financing program to support deemed exports in India. Deemed exports occur in case of specified transactions within India which results in foreign exchange earnings or foreign exchange savings. For instance, transactions such as supplies made by Indian manufactures to units in free trade zones and hundred per cent export units and to projects in India (financed by external agencies) which procure their requirements under the procedure of international competitive bidding qualify as deemed exports. Under its new program, Exim Bank extends deferred credit at an internationally competitive rate, to eligible deemed exports either through the supplier or directly to the buyer. Intermediating banks/institutions can also avail of refinance facility from Exim Bank, covering the full value of the term credit. Exim Bank may in addition,
provide pre-shipment (Working Capital) facility, normally for large transactions involving long manufacturing cycle time. In addition, facilities of issuing guarantees and bridge financing in foreign currency are also available for deemed exports. Under this scheme, Exim Bank finance the export of capital and producer goods and other goods, including selected industrial manufactures. Such items covered under a deemed export transaction, are eligible for Exim financing. Capital and producer goods are eligible for medium-term credits, with provision for long term credit, up to ten years, in exceptional cases other goods such as industrial manufacturers, can also be considered on merit, as creditworthy for up to one year, relaxable up to two years. Interest rate of 9 per cent per annum will be applicable to deemed exports, both for credit through supplier or direct to buyer. Banks/institutions can avail themselves of refinance from Exim Bank of 8 per cent interest rate. Ultimate rate to buyer in all cases will be 9 per cent per annum.

2. Finance for Export Marketing.

2.66 During 1986, Exim Bank introduced a new program - The Export Marketing Fund (EMF). Under this program, finance is available to Indian companies for undertaking export marketing activities. Such finance covers up to 50 per cent of the total cost incurred on eligible export marketing activities. The disbursals are in the form of grant. The EMF is a component of world Bank loan to India of US $ 250 million for promotion of a select-
ed group of engineering export products in developing country markets. Government of India has designated Exim Bank as the agency to manage EMF. The EMF program covers activities like desk research, minor product overseas travel, product inspection services training, establishing overseas operations and travel to India by buyers overseas. Major categories of engineering export products, covered under the EMF program, are: light engineering goods comprising of castings, forgings, industrial values auto components, diesel engines, pumps, electric motors, starters, hand tools; consumer durables like bicycle and scooters, capital good such as commercial vehicles, chemical plants, machine tools and computer software.

3. Facility For Syndication of Export Credit Risks

Exim Bank introduced in 1983 a new facility - Facility for syndication of Export Credit Risks, to attract greater participation in export credit from commercial banks in India, who are authorized dealers in foreign exchange. Under the Exim Bank syndication facility, Exim Bank will provide funds for an export proposal and syndicate the credit risks to a commercial bank or banks. For assuming such credit risks, banks would be able to earn from Exim Bank 0.5 per cent per annum by way of commission. The facility for syndication of term export credit risks, lends flexibility to the export credit mechanism, by allowing banks to assume risks, without blocking their funds for long terms, at fixed interest rates. Commercial banks can now support export proposals, without impairing their liquidity. Commercial banks
seeking enhancement in their export portfolio, can avail of this facility and participate in the syndication arrangement.

2.68 In order to avail this facility, the sponsoring bank is to forward proposals valued more than Rs.1 crores, entailing deferred credit exports of engineering goods and services, for consideration by an Inter-Institutional Working Group, which meets at Bombay, with Exim Bank as a focal point. At the Working Group's meeting, which accords clearance to the proposal, the participation arrangement for the funding of export credit is also determined. The sponsoring bank normally participates in the funding arrangement, and acts as the negotiating bank. Alternatively an agent Bank may be designed for the purpose. Exim Bank and other banks participating in the funding of the loan would syndicate the respective credit risks to other eligible commercial banks, who would then assume part of the total risk. This may be either at the time of Working Group meeting, or at any time there after during the tenure of export loan. Risk participating bank can in turn sell down their risks, to other eligible banks, at any time after clearance of the proposal, or thereafter until repayment of the loan.

II. NON-FUNDED PROGRAMS

2.69 Under its non-funded programs, Exim Bank generally include those schemes which do not require an immediate commitment of funds on the part of Exim Bank. These schemes mainly cover assistance in the form of bid-bonds, advance payment guarantees,
guarantee for retention money, guarantee for raising money abroad etc. Guarantees are given in foreign currencies on behalf of the Indian exporter or contractor in favor of the overseas importer, employer and/or bank. The interesting aspect of each of these schemes are narrated here.

1. Bid Bonds

2.70 Bid Bond is required to be submitted by the exporter at the time of submission of the tender. It is issued by the Exim Bank for a maximum period of six months. In case, contract is not secured by the exporter, 75 per cent of the commission is refunded by the bank.

2. Advance Payment Guarantees

2.71 Generally, exporters secure a mobilization advance of 10-20 per cent of the contract value from the importer. This payment is made by importer against submission of bank guarantee and this guarantee is given by the Exim Bank which enables the exporter to get the advance payment.

3. Performance Guarantee

2.72 Some times importers want to be assured of the execution of order by the exporter. For this purpose they want a sort of performance guarantee for 5 per cent to 10 per cent of the contract value. Exim Bank helps the exporter and importers in this direction by issuing performance guarantee.
4. Guarantee for Release of Retention Money

2.73 If no guarantee is furnished by the exporter, final payment against contract is paid only after the issue of final acceptance certificate. Exim Bank issue a guarantee which enable the exporter to get final payment before the issue of final acceptance certificate.

5. Guarantee for Raising Borrowings Overseas

2.74 Bridge finance may be needed during the earlier phases of the contract to supplement the mobilization advance. Funds up to 10 per cent of the contract value may be raised in foreign currency from a foreign bank against this guarantee.

6. Other Guarantees

2.75 Exim also provides any other guarantee at the request of the exporter which may help him to ease his financial problem in export transactions e.g. guarantee in lien of custom duty payment.
2.76 With a modest beginning in 1957, the Corporation has today come to occupy a place of pride among the institutions run by the government to stimulate the economy and to further trading operations with the rest of the world. It has also extended its cooperation to other developing nations who wished to set up similar institutions in their countries. After the initial teething troubles it launched itself on a road to rapid growth and in no year it had a fall in the risk value of policies or guarantees issued by it. It went forward, year after year and in 1966 - after a decade of its birth - it had proved its useful role and had come to stay as an essential ingredient for promoting India's exports. The primary goal of ECGC is to support and strengthen the export promotion drive in India via providing a range of credit risk insurance covers to exporters against loss in export of goods and services and offering guarantees to banks and financial institutions to enable exporters to obtain better facilities from them. In order to achieve this objective, the Corporation has devised a range of insurance covers and guarantee facilities. As the Corporation was established on the lines of Export Credits Guarantee Department of United Kingdom, the schemes introduced in the initial years were similar to those of the latter. But these schemes had to be modified in several respects over the years in order to suit the Indian environment and the peculiar problems of Indian exporters. Consequently,

1. Adapted from various pamphlets of ECGC
new schemes were innovated to deal with certain problems which only a developing country like India had. At the instance of export Promotion Advisory Council and the Indian Banking Association, an entirely novel scheme, namely, Packing Credit Guarantee Scheme came to be formulated by the Corporation in the year 1960. And the subsequent years further witnessed the introduction of the series of new schemes. Many of the new schemes symbolize the Corporation's rightful vision and its appreciable commitment to the cause of export promotion. Not all the new schemes took roots and flourished. A few of them faded out when the problems they sought to solve changed their character or disappeared. Examples are the Exporter's Credit Insurance Policy and Manufacturer's Credit Insurance Policy which were designed to facilitate financing of the exporters by the manufacturers or the manufacturers by the exporters. The need for these disappeared when the banking system evolved suitable techniques to meet these requirements. The Revolving Foreign Exchange Credit Scheme introduced in 1964 is still another example. It was introduced to facilitate raising of loans in foreign exchange at a time when import control was very strict. It lost its attraction as soon as the government liberalized the import of raw materials and components needed for export production. The Market Development Policies, which were designed to encourage Indian exporters to undertake Market Surveys and launch Sales Promotion Campaigns in Foreign Countries could not take off due to the extension of needed facilities for the purpose by the Government of India in the shape of the constitution of Export Promotion Councils and the
creation of a Market Development Fund. A brief description of the schemes found in operation as on this date is as thus. To begin with, it may be noted that ECGC’s entire schemes could be divided into five major groups, namely, i) Standard Policies, ii) Specific Policies, iii) Financial Guarantees, iv) Special Facilities, and v) Special Schemes. Of these, we have detailed out here under only the variety of schemes covered under the title ‘Financial Guarantees’ as all other does not directly promote export credit.

ORBIT OF ECGC SCHEMES

1. Insurance Covers for Buyers’ Credit & Lines of Credit

2.77 Financial Institutions in India, like those in several other countries, have started direct lending to buyers or financial institutions in developing countries for importing machinery and equipments from India. Such lending may take the form of Buyers’ Credit or Lines of Credit. Buyers’ credit is a loan extended by a financial institution to a foreign buyer to enable him to buy from India machinery and equipments needed for a specific project. Under lines of credit a loan is extended to a foreign government or a financial institution in the importing country for financing import of a specified range of items from the country granting the loan. This kind of financing facilitates immediate payment to exporters and frees them from the problems of credit management as well as from the fear of loss on account of overseas credit risks. While the credit risks disappear as far
as the exporter is concerned, they still exist for the financial institutions which extend credits as they run the risks of loss arising on account of commercial and political factors. The schemes of Insurance Cover for Buyers' Credit and Lines of Credit evolved by the ECGC in 1976, protect financial institutions from losses inherent in extending such credits. Insurance agreements are however, drawn on a case to case basis. Accordingly, the terms of credit, premium rates etc. vary depending upon the country of the borrower and the length of credit.

2. Financial Guarantees

2.78 All through the world the main function of export credit insurers has been to provide covers to exporters against commercial and political risks inherent in exporting goods abroad. Hence, it was so with the ECGC too until the close of 1960. A major departure took place in 1960 when the Corporation introduced a scheme of Packing Credit Policy which covered the risk of loss to a bank granting pre-shipment advances to exporters. It was designed to serve as an additional security to the financing bank, the objective being to enable Indian exporters to get from commercial banks credit facilities necessary for export business, in adequate measure and on liberal basis. Because, exporters require adequate financial support from banks to carry out their export contracts. The Packing Credit Policy, which later came to be known as Packing Credit Guarantee, is thus, the forerunner of many more guarantees that came to be introduced in the subsequent years. Four categories of financial guarantees have so far been
evolved by the Corporation: (1) Packing Credit Guarantee, (2) Export Production Finance Guarantee, (3) Post-shipment Export Credit Guarantee, and (4) Export Finance Guarantee. All these guarantees have been designed to encourage banks to give adequate credit and other facilities for exports, both at pre-shipment and post-shipment stages, on a liberal basis. They provide protection to banks against losses due to non-payment by exporters on account of their insolvency or default. ECGC pays three-fourths of the loss in the case of Post-shipment Export Credit Guarantee, Export Finance Guarantee, Export Performance Guarantee and Export Finance (overseas lending) Guarantee and two-thirds of the loss in the case of others. The Corporation agrees to pay higher percentage of loss to banks which offer to cover all their pre-shipment advances under a Whole Turnover Packing Credit Guarantee. Similarly, a higher percentage of cover is offered under Post-shipment Export Credit Guarantee, if the concerned bank agrees to cover all its post-shipment advances on whole turnover basis. In special cases, ECGC also considers payment of claims to the extent of 80 per cent of the loss in respect of advances granted under Post-Shipment Export Credit Guarantees against shipments of engineering and metallurgical items of the value of Rs. 2 crores or more under a single contract. The relevant provisions of these guarantees are discussed below.

1. Packing Credit Guarantee.

2.79 Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods meant for export against a
firm order or letter of credit qualifies for packing credit guarantee, 'pre-shipment' advances given by banks to parties who enter into contracts for export of services or for construction works abroad, to meet preliminary expenses in connection with such contracts are also eligible for cover under this guarantee. The requirement of lodgement of letter of credit/export order for granting packing credit advances may be waived, as permitted by RBI for certain commodities. The premium rate is 7.5 paise per Rs.100 per month or part thereof. A lower rate of 3.5 to 5 paise per Rs.100 per month is charged under the Whole Turnover Packing Credit Guarantee (WTPCG) depending upon the volume of business. Premium under WTPCG is payable on the daily average product basis, while under individual guarantee it is payable on maximum outstanding. The percentage of loss covered under the WTPCG is 75 as against 66.67 per cent under individual guarantee. Banks which opt for WTPCG will be eligible for similar concessions in respect of Export Production Finance Guarantee and Export Finance Guarantee. These concessions are also available in respect of advances against contracts for supplies on deferred terms and for construction works, but the banks will have to obtain separate guarantees for such advances.

2. Export Production Finance Guarantee

2.80 The Export Production Finance Guarantee was introduced in the year 1966 in order to solve a special problem relating to pre-shipment finance. Many manufactured items were being exported at prices much lower than the domestic cost and the difference
was being made up by cash assistance, duty drawback, etc. granted by the government. But the fact remained that the packing credit advances which the exporters were able to get from commercial banks were based on the export value of the goods and were therefore inadequate to meet the pre-shipment requirements of the exporters. In order to overcome this problem, commercial banks were allowed to extend pre-shipment finance on the basis of the domestic value of the goods and the ECGC introduced the Export Production Finance Guarantee to cover such advances. The advances to be covered under the guarantee were not to exceed 50 per cent over and above the total value of the goods. Initially advances granted only to the exporters of textiles, yarn and ready-made garments were eligible for cover under the guarantee. This condition was liberalized in the subsequent years and the guarantee was made applicable to pre-shipment advances granted in respect of all commodities eligible for cash assistance and duty drawback. Further relaxations were made in the year 1972. As pre-shipment credit to the extent of 150 per cent of the export value was, in many cases, inadequate for manufacturing or for purchasing certain types of goods, the Corporation modified the scheme to enable banks to sanction advances to exporters up to:

a) 75 per cent over and above the export value of the goods or,
b) the domestic cost of the export product.

The guarantee covers 66.67 per cent of the loss that may be sustained by the banks. Premium is payable at the rate of 7.5 paise per Rs.100/- per month.
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3. Post-Shipment Export Credit Guarantee

2.81 The Post-Shipment Export Guarantee was introduced in 1964 in order to enable exporters to get post shipment credit on a liberal basis. In return for a premium of 5 paise per Rs.100 per month, the Corporation agreed to make good 66.67 per cent of any loss that might be sustained by the banks due to insolvency or default of the borrower. In the year 1968, the extent of cover was increased to 80 per cent for advances against export of capital goods on medium or long-term credit. The normal percentage of cover which continued to be 66.67 per cent was raised to 75 in the year 1974. The year 1978 witnessed a major development when Post-Shipment Guarantee was also offered on a whole turnover basis. The percentage of cover was increased, the premium rate was reduced and a number of liberalization were introduced in the terms and conditions of cover. The contents of the scheme, as it stands at present, are as thus.

2.82 Post-shipment finance is given to exporters by banks through purchase, negotiation or discount of export bills or advances against such bills qualifies for cover under this guarantee. It is necessary, however, that the exporter concerned should hold shipment for contracts policy of ECGC to cover the overseas credit risks. The premium rate for this guarantee is 5 paise per Rs.100 per month. This guarantee is also issued on whole turnover basis, offering a higher percentage of cover at a reduced rate of premium. The percentage of cover under the whole turnover Post-shipment guarantee is 85 for advances granted to exporters.
holding ECGC policy. For advances granted to non-policy holders the percentage of cover is 60. The premium rate is 2 paise per Rupees 100/- per month if advances against L/C bills are also covered under the guarantee, otherwise it is 2.5 paise.

4. Export Finance Guarantee

2.83 This guarantee was introduced in the year 1964. The guarantee was designed to meet the special requirements of exporters of certain commodities who were exporting at a price lower than their cost. The difference between the export price and the cost price was being made good by compensation payments made by Government of India in the form of cash assistance, duty drawback etc. It, however, took quite sometime for the exporters to realize these payments from the government departments. A sizable portion of their working capital was thus getting blocked. The Export Finance Guarantee was introduced in order to enable commercial banks to grant advances to exporters against their entitlements for cash assistance, duty drawback etc. Thus Export Finance Guarantee covers post-shipment advances granted by banks to exporters against such export incentives. The premium rate for this guarantee is 5 paise per Rs. 100/- per month and the cover is 75 per cent. Banks having WTPCG/WTPSG are eligible for concessionary premium rate and higher coverage.
2.84 The Reserve Bank, with the objective of increasing bank lending to the export sector and assisting the export trade in general has taken a number of measures. For the purpose of understanding these measures may be studied under the sub heads: (1) Export Bills Credit Scheme; (2) Pre-Shipment Credit Scheme; (3) Export Credit (Interest Subsidy) Scheme; (4) Duty Drawback Credit Scheme; and (5) Other Supportive Measures.

1. EXPORT BILLS CREDIT SCHEME

2.85 In order to encourage commercial banks to extend export credits on a more liberal basis the Bills Market Scheme was modified in October, 1958, under Section 17(4)(c) of the Reserve Bank of India Act, so as to include export bills as well. Under the extended Bill Market Scheme, all scheduled banks which were eligible for RBI assistance under the earlier scheme and authorized to deal in foreign exchange were eligible also to borrow against export bills at the bank rate. Demand loans granted by scheduled banks against the security of usance export bills drawn on any country outside India and maturing within 90 days were to be converted into usance promissory notes maturing within 90 days. These notes were treated as eligible securities for advances by the RBI under Bill Market Scheme. To start with, the


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RBI agreed to bear half of the amount of stamp duty payable on these bills. In January, 1959 the RBI offered to bear 3/4th of the stamp duty and from October, 1959 the whole of the stamp duty was agreed to be borne by the RBI.

2.86 The extended credit facilities under the Bills Market Scheme were not availed of by banks to any large extent, mainly because exporters were unwilling to execute usance promissory notes after they had tendered documentary export bills to the bank for acceptance and collection abroad. Besides, the exporters felt that the duration of credit was too short to meet their requirements. In the absence of such usance promissory notes, it was not possible for the Reserve Bank to make loans or advances under the then existing provisions of the Reserve Bank of India Act, which did not permit advances to be made on the security of documents bearing only the signature of the borrowing institution. The RBI was also not in a position to provide financial assistance for export purposes for a period longer than 90 days. Under these circumstances, the extension of the Bill Market Scheme was given up in September 1962, when the RBI Act was amended by which the Reserve Bank was authorized to purchase and rediscount export bills maturing within 180 days. The Reserve Bank was also enabled by the same amendment to make advances against eligible usance promissory notes arising out of bonafide commercial transactions relating to export of goods and maturing within 180 days.

2.87 Under the new Section 17(3A) incorporated in the Act in 1962, the Bank could make loans and advances to scheduled banks, against their promissory notes repayable on demand or on the
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expiry of fixed periods not exceeding 180 days. Following this, the Reserve Bank introduced the Export Bills Credit Scheme in March 1963. Under this scheme, all scheduled banks which are authorized dealers in foreign exchange are eligible for credit facilities against their usance export bills having a usance not exceeding 180 days, drawn in foreign or Indian currency and which were negotiated or discounted by the borrowing bank. Initially, on an application being made by an eligible bank wishing to avail itself of the facilities under the scheme, the Reserve Bank sanctioned limits valid for one year. Advances were available up to 100 per cent of the amount of eligible bills reported by the borrowing banks in the declarations. Interest on the advances made was payable at the Bank Rate or at such other rate as the Reserve Bank might notify from time to time. The scheme had the effect of widening the range of collateral for borrowing from the Reserve Bank as banks could borrow against usance export bills. A further advantage to banks was that their borrowings against usance rupee export bills were permitted at the Bank Rate over and above the basic quota for each bank for borrowing at the Bank Rate as well as additional to the overall permitted level of borrowings available to them.

2. PRE-SHIPMENT CREDIT SCHEME

2.88 The Pre-shipment Credit Scheme was introduced in February, 1969, by inserting clause (ii) in Section 17 (3A) in the RBI Act. This scheme has empowered the Reserve Bank to make advances to any scheduled bank against its promissory notes repayable on
demand or on the expiry of fixed periods not exceeding 180 days, provided the borrowing bank furnished a declaration that it had granted a pre-shipment loan or advance to an exporter. The new scheme obviated the need for banks to convert the demand promissory notes covering their pre-shipment advances into usance promissory notes for purposes of lodgement with the Reserve Bank as was the requirement under the Bill Market Scheme. Under the Pre-shipment Credit Scheme, advances can be granted by way of pre-shipment advance or packing credit in respect of shipments expected to be made within a period not exceeding 180 days from the date of the advance. However, where an exporter is for reasons beyond his control unable to ship the goods within the maximum period of 180 days and the goods are ultimately shipped within a reasonable time there after, the advances are eligible for refinance during the extended period also, provided the extended period is approved by the Reserve Bank. Initially, the banks were required to apply to the Reserve Bank for fixation of yearly limits for borrowings under the scheme. Refinance was available upto 100 per cent of the amount of pre-shipment advances outstanding and reported by the borrowing banks in the declarations. The accommodation provided under the Export Bills Credit Scheme and the Pre-shipment Credit Scheme has been modified over the years in tune with the changes effected in the Reserve Bank’s lending policy from time to time. The important changes are analysed below.
Policy Changes in Reserve Bank Refinance

2.89 With the objective of enlarging the assistance of scheduled commercial banks to domestic engineering industries, especially those having export potential, where indications of recessionary trends had developed, the Bank revived in August 1967, the facilities under Bill Market Scheme for refinancing of pre-shipment advances to exporters. The refinance was available at preferential rate of 4.5 per cent in the case of engineering and metallurgical products, and at the Bank Rate (6 per cent) in respect of other products.

2.90 It is worthwhile to make a brief mention of the facility for refinancing of medium-term export credit which was in existence during the period January, 1963 to August, 1964 under the aegis of the Refinance Corporation for Industry Limited. Under the Scheme operated by the Corporation for refinancing of medium-term export credit granted to exporters in the private sector banks authorized to deal in foreign exchange, finance was available for periods exceeding 6 months but not exceeding 5 years in the case of export of certain specified capital and engineering goods. Refinancing of pre-shipment credit where it was combined with post-shipment credit was also provided. Consequent upon the Industrial Development Bank of India taking over the Corporation on September 1, 1964, the scheme came to be operated by the former. During the years 1967 to 1970, as a further inducement to banks to lend to the priority sectors, concessions in computing the net liquidity ratio, as also refinance facilities at conces-

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sive rate on the incremental credit to these sectors, were granted by the Reserve Bank. Commencing from August 1967, separate ceilings were prescribed for the rates to be charged by banks to the borrowers in respect of packing credit and post-shipment credit, including credit for exports on deferred payment terms.

2.91 In terms of the credit policy announced in November, 1969, refinance at 4.5 per cent irrespective of the net liquidity ratio, was available against packing credit to exporters of engineering and metallurgical products and also up to an amount equal to the increase in export credit over the prescribed base period viz. November, 1968 to April, 1969.

2.92 In February, 1971, the basis of refinance facilities against export credit was reviewed in the context of the fixation in March 1968 of uniform interest rates ceiling of 6 per cent on all export credit sanctioned by banks. According to the revised arrangement, refinance was provided, irrespective of the net liquidity ratio up to an amount equal to 10 per cent of the average of week-end outstanding of export credit in 1970 at the concessive rate. This arrangement was continued during the years 1971-72 and 1972-73, with only the base year undergoing changes. Consequent upon the rise in the Bank Rate to 7 per cent from May 31, 1973, the refinance rates were raised from June 13, 1973 to 5.5 per cent and 7 per cent, respectively, for the two categories of entitlements. But soon thereafter, as one of the measures of credit restraint, the refinance entitlement at the concessive

1. Discussed at length in chapter III.
rate of 5.5 per cent was withdrawn from July 13, 1973. Borrowings equal to an amount of 10 per cent of the weekly average of export credit in 1972 were only available at the Bank Rate irrespective of the bank's net liquidity ratio, but unlike in the past such borrowings impaired the net liquidity ratio of the borrowing bank.

2.93 In consonance with the overall policy of the Bank to sanction refinance accommodation strictly on a discretionary basis, any special refinance facility concerning export credit was sanctioned to banks up to the end of June 1974, having regard not only to their performance in extending pre-shipment and post-shipment credit to their constituents but also to the growing necessity to boost exports. Export refinance equal to 10 per cent of a bank's average export credit for the period Jan-Sep 1973 was allowed at the Bank Rate up to the end of June 1974.

2.94 In July 1974, the Reserve Bank withdrew the export refinance limits and charged a rate of interest of 10 per cent in respect of limits allowed to continue for exceptional considerations. Further, following the rise in the ceiling rate of interest to be charged by commercial banks on export credit from 9 per cent to 10.5 per cent from July 23, 1974, the refinance rates on export credit was also raised to 11.5 per cent.

2.95 The export credit refinance facility to banks related to their average past performance, which had been withdrawn in July 1974, was reintroduced in June 1977. For the year 1977-78, apart from the basic refinance quota, concessionary refinance at 10.5
per cent was provided up to 50 per cent of the incremental performance in export credit of a bank over its average monthly performance in 1976. The rate of interest on export refinance was reduced from 10.5 per cent to 10 per cent in March, 1978. Refinance during 1978-79 was provided up to 50 per cent of the increase in export credit over the average month end export credit outstanding for the year 1977. In April 1980, the refinance was fixed at 50 per cent of the increase in export credit over the monthly coverage for 1978, the base year was changed to 1979 from April 24, 1981. In the interest of the export promotion, the interest rate on refinance was reduced to 9 per cent from June 1, 1981, but as a result of the raising of the Bank Rate, the refinance rate had to be raised to 10 per cent from July 18, 1981.

3. EXPORT CREDIT (INTEREST SUBSIDY) SCHEME

2.96 Export credit has been accorded especial treatment by the stipulation of a ceiling rate of interest chargeable for finance at the pre-shipment stage and the post-shipment stage which is lower than the maximum lending rate for other advances. In order that the prescription of a lower ceiling rate on advances does not discourage the banks from providing the necessary finance to exporters, and to make up partially for the loss in interest earnings, the banks are being granted a subsidy of 1.5 per cent by the Government of India, in terms of the Export Credit (Interest Subsidy) Scheme, 1968, with effect from March, 1968. Consequent upon the reduction in the ceiling rates on export credit in 1986, the rate of interest subsidy was also enhanced
from 1.5 per cent to 3 per cent with effect from August 1, 1986 (from the date when the lower rates on export credit are applicable).

2.97 The subsidy is payable in respect of all types of export credit provided by the banks except those refinanced by the Export-Import Bank of India (Earlier refinanced by the Industrial Development Bank of India). The Scheme is administered by the Reserve Bank on behalf of the Government under Section 17(11A)(b) of the Reserve Bank of India Act. The funds for the subsidy are provided from out of the Marketing Development Assistance of the Ministry of Commerce.

2.98 Besides, on behalf of the Ministry of External Affairs, the Bank is also disbursing, at different rates, special subsidy in respect of certain special lines of credit extended to Bangladesh for its imports from India. Working capital advances granted by way of packing credit by the co-operative banks catering for the needs of export trade were brought within the purview of the Scheme in 1973. The scheme was amended in September 1980 to cover buyer's credit also, whereby any loan or advance granted or any other credit provided by an institution to an importer in a foreign country importing machinery and equipment from India on deferred payment terms approved by the Bank are eligible for subsidy.

DUTY DRAWBACK CREDIT SCHEME

2.99 In respect of certain categories of goods exported out of
the country, exporters are entitled to customs duty drawback at rates laid down by the Government of India. As the sanction and disbursement of such drawback entitlements took time, the Government decided that as an export promotion measure, a scheme should be evolved for grant of advances by banks to the exporters against their duty drawback entitlements. This led to the introduction by the Bank with effect from February 1, 1976, of the Duty Drawback Credit Scheme under which scheduled banks authorized to deal in foreign exchange could grant advances up to 90 days to exporters against their entitlements to duty drawback as provisionally certified by the customs authorities pending final sanction and payment free of interest. Such advances are eligible for full refinance from the Reserve Bank under Section 17(3B) of the Act up to a maximum period of 90 days from the date of the advance. The refinance is also interest-free. The minimum amount for which refinance would be available to a bank at a time from the Reserve Bank was originally fixed at Rs.1 lakh and has been reduced to Rs. 20,000 in June 1976. Banks can sanction suitable limits to individual exporters for granting advances against the provisional duty drawback entitlements, taking into account their export performance, eligibility for the drawback and other relevant factors. The banks in turn have to apply to the Reserve Bank for fixing of limits annually giving date of the maximum and minimum levels of outstanding advances under the scheme in the previous year. While the bank's advances and the Reserve Bank refinance are both interest free, banks are permitted to charge a reasonable amount towards the administrative expenses and cost of

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transmission of funds between the centers where refinance is obtained from the Reserve Bank and the centers where advances are made to the exporters. For payment, the customs authorities make payment of final duty drawback by cheques directly to the banks concerned which in turn repay to the Reserve Bank the corresponding amount of refinance availed of by them under the scheme.

5. OTHER SUPPORTIVE MEASURES

2.100 The export sector has been given a preferential position by the Reserve Bank not only in the matter of refinance against export credit given by banks but also by way of grant of relaxations in the application of certain credit control measures in the interest of export promotion. The more important of these relaxations relate to the Credit Authorization Scheme. Since July 1968, the requirement of obtaining prior authorization from the Reserve Bank by banks under the credit Authorization Scheme is not applicable to sanction of credit facilities by way of post-shipment credit. Banks have been asked to sanction credit limits to a borrower separately for domestic business and for export purposes and seek the Bank’s prior authorization for pre-shipment credit in cases where the total credit limits fall within the purview of the Credit Authorization Schemes. Whereas the limit authorized for domestic business can be made available by banks freely for export purposes, the utilization for domestic purposes of packing credit limits authorized for export business is subject to the prior authorization of the Reserve Bank. Further, packing credit limits aggregating Rs. 5 lakhs from one bank to a
single borrower coming under the purview of the scheme are exempted from the requirement of prior authorization. Banks were granted additional powers in December, 1979, that whenever an application was made to the Reserve Bank for authorizing an increase in packing credit limits, they had the discretion to release, pending authorization by the Bank, an amount up to 10 per cent of the authorized packing credit limits subject to a maximum of Rs.25 lakhs. Further, banks could also allow temporary excess drawings in these limits or enhance them without prior authorization, up to 10 per cent of the limits already authorized or Rs.25 lakhs whichever was less for a period not exceeding three months. In March 1980 the discretionary powers of banks in respect of packing credits were further enlarged. Accordingly, banks can now allow additional packing credit limits up to 15 per cent of the existing packing credit limits or Rs.25 lakhs, whichever is less, for a period not exceeding three months.

2.101 Yet another facility extended to export credit by the Reserve Bank is that relating to the exemption from application of penal rates of interest. In cases where pre-shipment or post-shipment credit is extended beyond the periods stipulated for the concessive rates of interest the scheme of panel rates which are chargeable in different instances (such as defaults or delays in repayment or irregularities in cash credit accounts) is not applicable during extended periods. It is only where packing credits are availed of but the exports do not materialize, that banks may charge a suitable rate higher than their normal rate of interest from the date of the advance. Where ad hoc/temporary
limits are sanctioned in the case of pre-shipment/post-shipment finance, banks have been exempting from charging the additional interest, over the applicable rate, of one per cent per annum required to be charged on such limits for other purposes. Even the service charges, which may be levied by the banks, will not apply to export credit.

To conclude it may be observed that institutional set up for export finance that has come to develop in India over the years is quite elaborate and the schemes designed by each one of them appears to have taken care fully the variegated credit needs of the exporters. The extent to which these schemes are actually satisfying to the exporters' requirements has been explored and examined in subsequent Chapters.