CHAPTER 6
PROBLEMS FACED BY THE EXIM BANK

6.1 Introduction

To know the working of EXIM bank a questionnaire was prepared which helped in understanding the depth of the core transactions undertaken by the banks and to know the exact working of the bank at Indian level, International level, Micro, Small and Medium Enterprises, Turnkey projects, constructions project, normal Import and Export of commodities, Capital goods, Chemicals, Petrochemicals, Pharmaceuticals, Agricultural Machineries, Automobile, Handicrafts, services like Technology transfer, Consultancy, different types of Softwares and Trainings, etc.

Here it came to know about different aspects of bank like pre-shipment, post-shipment, line of credit, bilateral and multilateral, securities and guaranties in terms of finances and advances.

6.2 Problems of Lending

Term loans to export oriented Indian companies, finance various capital expenditures and to enhance their international competitiveness different term loans are provided by the EXIM bank. Loans & Guarantees are extended for expansion, modernization, upgradation or diversification projects including acquisition of equipment, technology etc.; Export of marketing, export of product development, setting up of Software Technology Parks, etc are some of the major areas of lending of EXIM bank.

Problem 1

Manufacturing / trading / services companies with a minimum export orientation of 10% of their annual turnover, or exports of Rs 5 crore per annum, are eligible to avail finance from Exim Bank. Exim Bank financing is available in Indian Rupees and in foreign currency.

This can be interpreted from the above statement that EXIM bank do not finances to small scale export houses and companies whose exports are is less than 5 crore per annum.
The tenor range is usually 7-10 years with a suitable moratorium, and repayments in suitable monthly / quarterly instalments. Promoter margin is minimum 20% and appropriate charge on the fixed assets of the company/project plus any other acceptable security including personal guarantees may be stipulated.

In view of the large untapped potential for increasing exports by the creative industries and in order to provide a strategic focus to this sector and enhance Exim Bank’s presence in the creative economy space, and as a corollary, in the MSME segment, Exim Bank has introduced a Programme specifically for financing the Creative Economy. A question was asked from the EXIM bank employees in the form of questionnaire and responses were collected from them.

**Problem 2**

*What are different types of lending provided by EXIM bank?*

<table>
<thead>
<tr>
<th>Lending</th>
<th>Corporate capital (Accepted)</th>
<th>Corporate capital (Rejected)</th>
<th>Credit line (Accepted)</th>
<th>Credit line (Rejected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
<td>NA</td>
<td>100%</td>
<td>NA</td>
<td>100%</td>
</tr>
<tr>
<td>Real estate</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Automobile</td>
<td>20%</td>
<td>80%</td>
<td>20%</td>
<td>80%</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)

It has been observed from the table 6.1 that 50% respondent accepted for real estate lending and 20% respondents accepted for automobiles lending in both
corporate and credit line sections, whereas all rejected personal lending from Exim bank to both corporate capital and credit line.

There is lack in personal level lending at both the areas i.e. corporate and credit lines.

Line of Credit is a financing mechanism through which Exim Bank extends support for export of projects, equipment, goods and services from India. Exim Bank extends LOCs on its own and also at the behest and with the support of Government of India.

The recipients of LOCs act as intermediaries and on lend to overseas buyers for import of Indian equipment, goods and services. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters to enter new export markets or expand business in existing export markets without any payment risk from the overseas importers.

6.3 Problems of Lending Restrictions

The Government of India (GOI), in 2003-04, formulated the Indian Development Initiative (IDI), now known as Indian Development and Economic Assistance Scheme [IDEAS] – with the objective of sharing India’s development experience through

(a) Capacity building and skills transfer
(b) Trade, and
(c) Infrastructure development

Exim Bank, since its inception, has been extending LOCs to various countries to promote export of Indian projects, products and services. Under the LOCs extended by Exim Bank to overseas financial institutions, foreign governments, regional and national development banks and commercial banks, Exim Bank finances all items eligible for being exported under the ‘Foreign Trade Policy’ of Government of India.

Problem 3
What are legal or internal restrictions that are imposed on these lending
Table 6.2 Types of Lending Restrictions

<table>
<thead>
<tr>
<th>Restrictions</th>
<th>Corporate capital</th>
<th>Credit line</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Internal (Accepted)</td>
<td>Internal (Rejected)</td>
</tr>
<tr>
<td>Personal</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Real estate</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Automobile</td>
<td>10%</td>
<td>90%</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)

As per the table 6.2 and chart 6.2 it is clear that 30% respondents accepted the corporate capital and credit line for personal and real estate sections of internal and legal category, whereas 10% respondents accepted for corporate and credit line in automobile sector in internal and legal category.

This can be interpreted in a way that lending by Exim bank is limited to certain section of exports and at certain level.

Problem 4

By what percent these restrictions can be reduced? What will be the impact of this reduction on lending in corporate capital and credit line?

On asking the question of impact of reduction in restriction on corporate capital and credit line the respondents responded as per the following table 6.3
Table 6.3 Increase in Capital / Credit if Lending Restrictions are Reduced

<table>
<thead>
<tr>
<th>Lending (Percentage)</th>
<th>Present Restrictions</th>
<th>Low Restrictions</th>
<th>Increased Corporate Capital</th>
<th>Increased Credit Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
<td>60</td>
<td>20</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Real estate</td>
<td>60</td>
<td>30</td>
<td>75</td>
<td>85</td>
</tr>
<tr>
<td>Automobile</td>
<td>20</td>
<td>10</td>
<td>40</td>
<td>50</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)

The data from the table 6.3 is the unanimous response of all the respondents. The low restrictions figures were given by them as those are the minimum limits they can attain.

The outcome is based on the responses given individually.

Chart 6.3 Increase in performance if Lending Restrictions are Reduced

It is observed and represented in table 6.3 that if, restrictions are lowered or reduced to approximately one third, corporate capital and credit lines could be increased. This increase in corporate capital and credit line shall enhance the performance of EXIM bank to achieve greater heights.

6.4 Different Sectors Where Bank Finances to Exporters

Problems Associated with Different Sectors Where Bank Finances to Exporters

Exim Bank encourages Indian exporters to invest more in their R&D spending in order to develop new products/processes/ IPRs for enhancing export capabilities. Considering the need to bridge the funding gap of Indian exporters in R&D space, the Bank has a dedicated R&D Financing Programme. Under the said Programme,
financing for R&D can be extended to any export oriented company/SPV promoted by companies, irrespective of the nature of industry.

**Problem 5**

Manufacturing / trading / services companies with a minimum export orientation of 10% of their annual turnover, or exports of Rs 5 crore per annum, are eligible to avail R&D finance from Exim Bank. Exim Bank financing is available in Indian Rupees and in foreign currency.

This can be interpreted from the above statement that EXIM bank do not provide finances Research & Development of small scale export houses and companies whose turnover is less than 5 crore per annum or which doesn’t exports 10% of their production.

- In order to promote Indian consultancy the bank has tied up with a number of international organizations, such as International Finance Corporation, Eastern and Southern African Trade and Development Bank, etc.
- The bank also serves as a consultant to various developing countries in promoting exports and exports finance.
- The bank helps in knowledge building by way of conducting seminars, workshops, and carrying out research studies on projects, sectors, countries, and macroeconomic issues relevant to international trade and investment. The bank has conducted sector-specific studies for identifying market potential for computer software, electric components, chemicals, floriculture, machine tools, pharmaceuticals, medicinal plants, sports goods, financial services, etc.
- The bank gathers and disseminates information on exporters/importers, industry/market reports, trade regulations and laws, country reports, international quality standards, etc. to assist exporters.

**Problem 6**

*What is the status of supply of goods / equipment in terms of deferred payment?*
Table 6.4 Supply of Goods or Equipments on Deferred Payment Terms

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Particulars Supply</th>
<th>(Accepted)</th>
<th>(Rejected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Stainless steel slabs</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2</td>
<td>Ferro-chrome manufacturing equipments</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>3</td>
<td>Diesel generators</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>4</td>
<td>Pumps</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>5</td>
<td>Compressors</td>
<td>30%</td>
<td>70%</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)

On asking question about differed payment terms for some specific materials and equipments, the respondents responded as per the table 6.4

![Chart 6.4 Supplies of Goods or Equipments on Deferred Payment Terms (Accepted)](chart)

While research it is found that stainless steel slabs were at the highest in case of supplies giving 40% acceptance ratio, where as all others like Ferro-Chrome manufacturing equipments, Diesel generators, pumps and compressors had an acceptance ratio of 30% from the respondents.

From table 6.4 and chart 6.4 it can be interpreted as the Exim bank is interested in bulky equipments while considering the supplies.
Problem 7
Weather Post-shipment Supplier’s Credit facility is provided to the exporters?

Post-shipment Supplier’s Credit;

On asking about Post-shipment Supplier’s Credit, 20% of respondents agreed. It can be interpreted in a way that, this can be extended to Indian exporter’s upto the extent of the deferred credit portion of the export contract, either in Rupees or in foreign currency. The post shipment credit facility needed to be enhanced.

The period of deferred credit and moratorium will generally depend on the nature of goods (List A and List B of Memorandum PEM) or nature of projects, as per guidelines contained in the Memorandum PEM of RBI.

Problem 8
Weather Export Project Cash flow Deficit Financing Program is Available for Exporters?

About 80% of the responses were positive and hence can be concluded as Indian project exporters incur expenditure in rupee or foreign currency while executing contracts i.e. costs of mobilisation / acquisition of materials, personnel and equipment etc. Exim Bank's facility helps them meet these expenses for -

a) Project Export Contracts;

b) Contracts in India categorized as Deemed Exports in the Foreign Trade Policy of India.

Note: 1

From research & observation it is clear that EXIM bank takes care of exporters in terms of deficit finance, hence we can say that this is not a valid problem as it has adequate consideration from EXIM bank of India.

Problem 9
Weather Pre-shipment Credit in Rupee and Foreign Currency facility is provided by the EXIM bank?
Pre-shipment Credit in Rupee and Foreign Currency

On asking question regarding pre-shipment credit in Rupee and other currency, only 40% respondents were satisfied with the facility. There has to be increase in the credit limits in terms of time and money. The EXIM bank provides 180 days credit where as it be extended to more than that.

Problem 10

Weather civil construction contracts are handled properly in terms of civil work, steel structural work and equipments?

Civil Construction Contracts;

Table 6.5 Civil Construction Details Project

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Particulars Supply</th>
<th>(Accepted)</th>
<th>(Rejected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Civil works</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Steel structural works</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Equipment for various infrastructure projects</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)

From table 6.5 and chart 6.5 it is clear that all the respondents agreed to the civil construction projects. Construction Projects involve civil works, steel structural works, as well as associated supply of construction material and equipment for various infrastructure projects. In almost all the sectors of civil construction EXIM bank helps to the tune of 90% to 100%.
This can be interpreted as EXIM bank is ready to cooperate with all civil related projects.

**Note: 2**

*From research & observation it is clear that EXIM bank takes care of exporters in terms of civil construction projects, hence we can say that this is not a valid problem as it has adequate support consideration from EXIM bank of India.*

**Problem 11**

*Weather all components of Industrial turnkey projects are given proper considerations?*

**Industrial turnkey projects;**

**Table 6.6 Industrial Turnkey Projects Details**

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Particulars Supply</th>
<th>(Accepted)</th>
<th>(Rejected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Supply of equipment</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>2</td>
<td>Design</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>3</td>
<td>Detailed engineering</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>4</td>
<td>Civil construction</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>5</td>
<td>Erection</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>6</td>
<td>Commissioning of plants</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>7</td>
<td>Commissioning of power transmission &amp; distribution</td>
<td>40%</td>
<td>60%</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)
From the table 6.6 and chart 6.6 it is seen that Exim bank is considerate only in two sections of turnkey projects; those are civil construction and design. But poor responses were received from respondents for other components of turnkey projects viz supply of equipments 60%; detail engineering, erection and commissioning of plant 50%; and commissioning of power transmission and distribution the lowest of 40%.

The responses can be interpreted in a way that supply of equipments, design and civil construction are given more importance as compared with commissioning of plants or power transmission & distribution or even detailed engineering. One idea behind civil related work can be easy availability of expert services and large profit. There remain problems with EXIM bank in even in some components of turnkey projects.

**Problem 12**

*Weather EXIM bank supports different types of consultancy & services contracts?*
Consultancy / services contracts;

**Table 6.7 Consultancy or Services Contracts Details**

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Particulars Supply</th>
<th>(Accepted)</th>
<th>(Rejected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Provision of know-how</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2</td>
<td>Skills</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>Personnel</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>4</td>
<td>Training</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>5</td>
<td>Project implementation services</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>6</td>
<td>Management contracts</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>7</td>
<td>Supervision of erection of plants</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>8</td>
<td>CAD/ CAM solutions in software exports</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>9</td>
<td>Finance and accounting systems</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)

From table 6.7 and chart 6.7, it can be interpreted as Technical and Consultancy Service contracts, involving provision of know-how, skills, personnel and training are categorised as consultancy projects. Typical examples of services contracts are: project implementation services, management contracts, and supervision of erection of plants, CAD / CAM solutions in software exports, finance and accounting systems. When asked about consultancy provision only 50% of respondents agreed. It is again seen that Exim bank is interested in large turnkey projects. There are many problems associated with the consultancy and services sector from EXIM bank.
6.5 Problems of Finances with EXIM bank

**Problem 13**
Weather details of finance for export of consultancy and technology services covered by EXIM bank,

On asking about finance for export consultancy and technology services, 70% of respondents responded that Exim Bank supports this sector. This can be interpreted that more support could be provided for this sector for better performance. This problem needed to be tackled.

**Problem 14**
Weather finance for deemed export contracts considered by EXIM bank?

When asked about finance for deemed export contracts, 60% of respondents responded that Exim Bank supports this sector. This can be interpreted that more support could be provided for this sector for better performance. This problem needed to be considered.

**Problem 15**
Weather finance for capital equipment finance considered by EXIM bank?

On asking about finance for capital equipment finance, 60% of respondents responded that Exim Bank supports this sector. This can be interpreted that more support could be provided for this sector for better performance. This problem needed to be tackled.

**Problem 16**
Financing Deemed Export contracts secured via structures including but not restricted to BOT / BOO / BOOT / BOLT.

On asking about finance for export contract, 60% of respondents responded that Exim Bank supports this sector. This can be interpreted that more support could be provided for this sector for better performance. This problem needed to be tackled.
Table 6.8 Different Finances (Accepted)

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Particulars</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finance for Export of Consultancy and Technology Services</td>
<td>70%</td>
</tr>
<tr>
<td>2</td>
<td>Finance for Deemed Export contracts</td>
<td>60%</td>
</tr>
<tr>
<td>3</td>
<td>Capital Equipment Finance</td>
<td>60%</td>
</tr>
<tr>
<td>4</td>
<td>Financing Deemed Export contracts secured via structures including but not restricted to BOT</td>
<td>60%</td>
</tr>
</tbody>
</table>

(Source: Data Collected from Questionnaires)

Chart 6.8 Different Types of Finances

As shown in table 6.8, there can be considerable increase in export of financial services.
6.6 Problems Related with Security or Collateral

Problem 17

Whether the proportion of corporate lending is secured?

On asking the question whether the proportion of corporate lending is secured, about 60% of respondents agreed that, Exim Bank encourages Indian companies to invest abroad for, inter alia, setting up manufacturing units and for acquiring overseas companies to get access to the foreign market, technology, raw material, brand, IPR etc.

Problem 18

What type of security/collateral does the Bank require and what is the preferred (or most common) form used?

For financing such overseas investments, Exim Bank provides:

a) Term loans to Indian company’s upto 80% of their equity investment in overseas JV/ WOS.

b) Term loans to Indian companies towards upto 80% of loan extended by them to the overseas JV/ WOS.

c) Term loans to overseas JV/ WOS towards part financing
   (i) capital expenditure towards acquisition of assets,
   (ii) working capital,
   (iii) equity investment in another company,
   (iv) acquisition of brands/ patents/ rights/ other IPR,
   (v) acquisition of another company,
   (vi) any other activity that would otherwise be eligible for finance from Exim Bank had it been an Indian entity.

d) Guarantee facility to the overseas JV/ WOS for raising term loan/ working capital.

Problem 19

Describe whether key problems that exist & details of Letters of Credit / Guarantees.
On asking the question regarding types of security / collateral required by the Bank and its preferred form, about 50% of the respondents answered that EXIM bank provides a package of information and support services to Indian companies to help improve their prospects for securing business in projects funded by the World Bank, Asian Development Bank, African Development Bank, and European Bank for Reconstruction and Development.

All respondents agreed for LOC which can be interpreted as all of the Indian companies can avail of guarantee facilities of different types to furnish requisite guarantees to facilitate execution of export contracts (including deemed export contracts) and import transactions.

Advance Payment Guarantee is issued to project exporters to secure a project mobilization advance as a percentage (10-20%) of the contract value, which is generally recovered on a pro-rata basis from the progress payment during project execution.

Performance Guarantee for up to 5-10% of contract value is issued valid until completion of maintenance period and/or grant of Final Acceptance Certificate (FAC) by the overseas employer/client. Retention Money Guarantee enables the exporter to obtain the release of retained payments from the client prior to issuance of Project Acceptance Certificate (PAC)/Final Acceptance Certificate (FAC).

Other Guarantees e.g. in lieu of customs duty or security deposit for expatriate labour, equipment etc. is also applicable for Indian project exporters securing overseas or deemed export contracts.

(Source: Data Collected from Questionnaires)

6.7 Other Problems Observed Through Study

<table>
<thead>
<tr>
<th>Problem 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the impact of paper work on smooth transaction of import &amp; export?</td>
</tr>
</tbody>
</table>

From study it is observed that it is the monotonous and time consuming procedure. The importers and exporters cannot afford that much time. They prefer to take the help of other banks which have fast redressal.
Problem 21

*Is the working of EXIM bank online?*

It is observed that still major working of EXIM bank is manual, hence time consuming. There are increased chances of error due to laziness, fatigue, boredom, etc of employee working in EXIM bank. Hence it would be better for EXIM bank to provide online processing facilities for importers and exporters.

Problem 22

*What are the views of importers & exporters regarding EXIM bank for increasing overseas trade?*

It has been seen that many small and medium scale importers and exporters get struck in frauds, scams, etc. because of lack of knowledge about the country or party. This can be reduced or removed by imparting proper knowledge to them by conducting seminars, workshops, presentations, etc. through EXIM bank. EXIM bank should also consider small and medium scale industries for promotion of foreign trade.

Problem 23

*What is the method of security in latest world trade situation EXIM bank should take?*

It is observed from the study that, there are many regular security related problems associated with importers and exporters. It is also observed that political or economical condition of countries throughout the world may get disturbed any time because of war, internal problems of race, caste & creed, change of government, etc. leading to a depression in foreign trade. EXIM can make aware importers and exporters in this regard by providing adequate knowledge.

**Hypotheses accepted**

In this chapter, from table 6.4 to 6.11, based on data analysis, it is observed that “The contribution of Exim bank in promotion of export by providing non-financial services” is proved. This proved our hypotheses.

Hence our hypothesis is accepted.