CHAPTER II

EXPORT INCENTIVE SCHEMES
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EXPORT INCENTIVE SCHEMES

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2.1 INTRODUCTION

Foreign trade plays an important role in the economy of a nation. Foreign trade consists of both exports and imports. When the exports are more than the imports, the country has a favourable balance of trade and it earns foreign exchange reserves. Hence to earn more foreign exchange, a country's exports have to be increased. Exporters are to be motivated to increase their exports; to motivate them some incentives are required. The Government of India motivates exporters by way of export incentives. Some of the export incentives are given below:

1. Duty Drawback,

2. Duty Entitlement Passbook Scheme,

3. Special Import License,

4. Export Financing,

5. EPCG Scheme,

6. Market Development Assistance, and

7. Cash Compensatory Support.

In order to utilize the export incentives, exporters will increase their export business by utilizing the unused capacity. This will reduce the cost, and increase the overall profitability of the firm.
Sometimes the government may impose certain restrictions on further growth and capacity expansion of some firms within the domestic market in order to achieve certain social objectives. But there may not be any such restrictions on making investments overseas or the restrictions may be relaxed even in the domestic market, provided the additional capacity envisaged by the company is utilized for exports.

Export incentives are required to motivate the exporters to enter the export market. Entry into export markets may enable a firm (i) to pick up new product ideas and to add to its product line, (ii) to improve its product, (iii) to reduce costs and (iv) to discover new applications for its product.

These reasons justify that motivation required the exporters for their export business. "Most developing countries have, therefore, resorted to a number of export promotion measures."\(^1\) India has also been providing export assistance to Indian exporters. Export assistance is otherwise called export incentives. "Export incentives are a widely employed strategy of export promotion. The main aim of these incentives is to increase the profitability of export business."\(^2\)


Export incentives are to be provided to the exporters continuously. That means exporters are to be motivated consistently. Fiscal incentives to exporters are not only to continue but are being enlarged.

The details of various export incentives are briefly explained.

2.2 DUTY DRAWBACK

Duty Drawback is an incentive provided by the Central Government to the exporters for encouraging exports. Duty Drawback helps the exporters to keep the Indian products competitive in the overseas market. The duty paid on the inputs (indigenous and imported) used in the production of export goods can be refunded after the exporters provide proof of the export of such goods. The refund of duty is called duty drawback.

The provision for relief of duties paid on various inputs used in the manufacture of products for exports, where the inputs are imported, were provided under the Sea Customs Act, 1878 and these have continued with certain modifications in the Customs Act, 1962 which replaced the Sea Customs Act Section 75 of Customs Act, 1962 gives the legal sanction for granting such relief and it is referred to as 'Drawback'.

According to Rule 2(a) of the Customs and Central Excise Duty Drawback Rules 1995, 'drawback' in relation to any goods manufactured in India and exported means the rebate of duty chargeable on any imported material or excisable materials used in the manufacture of such goods.
Under the provisions of Section 75 of the Customs Act and Section 37 of the Central Excise Act, the Government have notified the Customs and Central Excise Duties Drawback Rules, 1995. Some of the main provisions of Drawback Rules are given below.

In respect of goods (inputs) on which lesser duty has been paid or rebate etc., has been claimed, the drawback admissible on the said goods shall be reduced taking into account the lesser duty paid or the rebate, refund or credit obtained.

No drawback shall be allowed if no duty (customs or central excise duty) has been paid.

While determining the rate of drawback the government will consider the average quantity or value of each class or description of the materials from which a particular class of goods is produced, and the average amount of duties paid on such materials.

Where the amount or rate of drawback has not been determined (i.e., cases not included in the schedule of all industry rate of drawback) an application shall be made by the manufacturer-exporter within 60 days of export for fixation of drawback, giving all relevant facts and information in the prescribed proforma of Drawback.

Pending the fixation of the drawback rate, the exporter can make an application for the provisional payment of the drawback. For this
purpose the exporter has to give a bond undertaking to pay back the amount of drawback or the differential that may be so required after fixation of drawback.

Where the exporter finds that the all industry rate of drawback is low (less than four-fifths of the duties actually paid on the materials or components used in the manufacture of export goods), he may within 60 days from the date of export make an application of fixation of Brand Rate of Duty Drawback. In the meantime he can avail the drawback provisionally.

The Department verifies the data submitted, and then the Brand Rate is fixed for that particular product and that exporter for one shipment or for a specified period of time. No drawback is to be determined when the drawback is less than one percent of the FOB value of export or less than Rs.500/-. The exporter-manufacturer has to submit information and documents that may be necessary for the fixation of the Brand Rate of Drawback. He has also to give access to his manufacturing unit. Drawback is also admissible on export of goods by post.

Where the amount of drawback sanctioned is found to be less than what was admissible, the exporter may file a supplementary claim. When the drawback amount has been paid excessively, the excess can be recovered from him. Drawback can also be recovered in cases where export proceeds have not been realised.
2.2.1 DUTY DRAWBACK - TYPES OF DRAWBACK RATES

There are two types of drawback rates. They are 'All Industry Rate' and 'Brand Rate'. All Industry Rates are announced once a year after three months from the presentation of the central budget. The rates are fixed for various export commodities based on the current rate of import duties and central excise duties on various input materials used in the production of export goods. All Industry Rates are subject to revision either on the initiative of the Government or the Export Promotion Councils.

Brand Rate is applicable to the products for which drawback is not mentioned in the table of duty drawback. This table reveals the All Industry Rate for the various types of products produced and exported. The Brand Rate is approved by the Drawback Directorate for the products for which the All Industry Rate is not available. The exporter should apply to the Drawback Directorate, Ministry of Finance, for getting the Brand Rate. The brand rate is fixed for a particular commodity and for a particular exporter for a particular shipment or for a specified period of time on the basis of the information submitted by the exporter.

Exporters can utilise the Special Brand rate also. If the existing duty drawback rate is less than 4/5 of the duty paid, exporters can approach the Drawback Directorate, Ministry of Finance for getting the Special Brand Rate. A separate application is to be made to the Drawback Directorate for availing Special Brand Rate. Based on the information
provided by the exporters, the Drawback Directorate will fix the special Brand Rate after verification of the documents submitted by the exporter. The exporters have to submit the relevant information in the prescribed formats stating the quantum of each raw material used for manufacture of a specified quantity of finished export products, central excise and customs duty paid on the inputs used and other documentary evidence about the duty paid and export of goods for getting the Brand Rate / Special Brand Rate.

2.2.2 AMOUNT OF DUTY DRAWBACK PROVIDED BY THE GOVERNMENT OF INDIA

The amount of duty drawback facility provided by the Central Government to the exporters for the period 1997-98 to 2000-2001 (April-November) is given in table 2.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rs. In crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 – 1998</td>
<td>3,600</td>
</tr>
<tr>
<td>1998 – 1999 (upto December)</td>
<td>3,000</td>
</tr>
<tr>
<td>1999 – 2000 April – November</td>
<td>3,378</td>
</tr>
<tr>
<td>2000 – 2001 April – November</td>
<td>3,680</td>
</tr>
</tbody>
</table>

Source: 1. Business Line, April, 25, 2000

Table 2.1 shows that the amount of Duty Drawback incentive provided by the Central Government to the exporters was Rs.3,600 crore in
1997-98 and it is increased to Rs.3,680 crore in 2000-2001 (April - November).

2.3 DUTY ENTITLEMENT PASSBOOK SCHEME

The DEPB scheme incorporates the concept of the old Pass Book but with simplified procedures and greater coverage and transparency in the matter of giving credit entitlements. The entitlement rate will be pre-determined so that the exporter at the time of export can do their costing accordingly. It is a transparent scheme and does away with any discretion to the Licensing Authority or Custom Authority and can be availed on pre-export/post-shipment export basis.

This scheme is very easy to operate and the exporter has to come to the Licensing Authority only once for getting the credit under post-shipment export. DEPB has been extended to all the ports for which advance license facility is available.

2.3.1 MEANING OF DEPB

The Duty Entitlement Pass Book is an import license, allowing import of goods with adjustment of customs duty against duty entitlement earned on exports.

The objective of the DEPB scheme is to neutralise the incidence of basic customs duty and surcharge thereof on the import content of the export product. The neutralisation is provided by way of grant of duty
credit against the export product. The duty credit under the scheme is calculated by taking into account the deemed import content the said export product, as per standard input/output norms and determine the basic customs duty and surcharge thereof payable on such deemed imports. The value addition achieved by export of such product is also taken into account while determining the rate of duty credit under the scheme.

Under the Duty Entitlement Pass Book Scheme an exporter is eligible to claim credit as a specified percentage of f.o.b. value of exports made in freely convertible currency. The credit shall be available against such export products and at such rates as may be specified by the Director General of Foreign Trade by a Public Notice issued in this connection.

2.3.2 PROVISIONAL ENTITLEMENT AT 10% UNDER DEPB ON PRE-EXPORT BASIS

DEPB on pre-export basis aims to provide the facility to eligible exporters to import inputs which are required for production.

The credit of DEPB on pre-exports basis is granted at the rate of 10% of the average export performance of the applicant during the preceding three licensing years. However, if the DEPB rate of the item proposed to be exported is less than 10% the pre-export DEPB is restricted to such lower DEPB rate.

At the time of offsetting of export obligation, the licensing authority calculates the credit entitlement earned by the exporter against the
exports made by him, with reference to the rate as applicable for DEPB on post-export basis.

2.3.3 PENALTY

If a DEPB holder violates any condition of the Pass Book or fails to offset the export obligation, he is liable to action in accordance with the Foreign Trade (Development & Regulation) Act, 1992, rules and orders made thereunder, Exim policy and any other law for the time being in force.

2.3.4 DEPB ON POST - EXPORT BASIS

In the Post-export Pass Book, the customs duty credit is earned at specified rates by export of notified export products. The DEPB credit shall be granted against exports already made. The credit so earned can be used for import of any items not mentioned as restricted in the ITC (HS) classification of Export and Import items. At the time of import, the customs duty payable will be against the customs duty credit earned by exports.

2.3.5 DEPB ON PRE-EXPORT BASIS

DEPB on pre-export basis aims to provide the facility to eligible exporters to import inputs which are required for production.

In the pre-export passbook, 10 percent of the value of average exports in preceding three licensing years is given as customs duty credit.
However, if the DEPB rate of the item proposed to be exported is less than 10%, the credit shall be given at such lower rate.

2.3.6 ELIGIBILITY

Manufacturer exporters and merchant exporters tied with the supporting manufacturer(s) with export performance in the preceding three licensing years are eligible to claim DEPB on pre-export basis.

2.3.7 AMOUNT PROVIDED UNDER DEPB SCHEME BY THE GOVERNMENT OF INDIA

The amount provided under the DEPB scheme by the Central Government to the exporters for the period 1997-98 to 2000-2001 (April - November) is given in Table 2.2

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rs.in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 – 1998</td>
<td>470</td>
</tr>
<tr>
<td>1998 – 1999 (upto December)</td>
<td>1,900</td>
</tr>
<tr>
<td>1999 – 2000 (April – November)</td>
<td>2,707</td>
</tr>
<tr>
<td>2000 – 2001 (April – November)</td>
<td>3,224</td>
</tr>
</tbody>
</table>


Table 2.2 shows that the amount of the DEPB provided by the Central Government to the exporters was Rs.470 crore in 1997-98 and it has
increased to Rs.2,707 crore in 1999-2000 (April - November) and Rs.3,224 crore in 2000-2001 (April - November).

2.4 SPECIAL IMPORT LICENSE

The Director General of Foreign Trade may specify a class or category of export products or a class or category of exporters who shall be eligible for special import license subject to such conditions as may be specified. Such Special Import Licenses shall be granted only where export proceeds have been realised in foreign exchange.

The Special Import Licenses are freely transferable and are valid for import of items as given in the book titled “Classifications of Export and Import items”. The imports under Special Import License are subject to normal customs duties. Import of gold and silver, however, will be allowed at the concessional rate of customs duty, as may be specified by the Department of Revenue.

2.4.1 EXPORTERS ELIGIBLE FOR SPECIAL IMPORT LICENSE BENEFITS

Special Import Licenses are issued to (i) Export/Trading/Star Trading/Super Star Trading Houses, (ii) Service Provider recognised as Service Export Houses, International Service Export House, International Star Service Export Houses and International Super Star Service Export Houses (iii) manufacturers/processors who have acquired ISO 9000/BIS 14,000 or equivalent internationally recognised quality standards. (iv)
EOU/EPZ units, (v) deemed exports, (vi) exporters of telecommunication equipment and electronic goods and services, (vii) small scale exporters holding ISO 9000 (series) or IS/ISO 9000 (series) of quality certification and achieving the prescribed export turnover (viii) other exporters and service providers.

2.4.2 CONDITIONS FOR IMPORT AGAINST SIIL

With effect from 31st March 1999, any item importable under the Special Import License (SIIL) is importable on surrender of the SIIL, equivalent to three times the c.i.f. value of the imports, except in those cases where the requirement of surrender of the SIIL is more than three times the c.i.f. value of the imports.

Manufacturers / processors exporting through third party are also eligible for the SIIL provided the name of the manufacturer/processor is also given on the shipping bill and a disclaimer is furnished from the third party.

2.4.3 SIIL UNDER EXIM POLICY, MARCH 2001

"Permission for import of second hand capital goods which are less than 10 years old without obtaining any license on surrender of Special Import License". Special Import License abolished from 1st April, 2001.

2.4.4 VALUE OF SIL PROVIDED BY THE GOVERNMENT OF INDIA

The value of SIL provided by the Central Government to the exporters for the period 1997-98 to 2000-2001 (April -November) is given in Table 2.3

TABLE 2.3

VALUE OF SIL INCENTIVE TO EXPORTERS

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rs.in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 – 1998</td>
<td>300</td>
</tr>
<tr>
<td>1998 – 1999 (upto December)</td>
<td>150</td>
</tr>
<tr>
<td>1999 – 2000 (April – November)</td>
<td>69</td>
</tr>
<tr>
<td>2000 – 2001 (April – November)</td>
<td>213</td>
</tr>
</tbody>
</table>


Table 2.3 shows that the value of SIL provided by the Central Government to the exporters was Rs.300 crore in 1997-98 and it has increased to Rs.213 crore in 2000-2001 (April - November).

2.5 EXPORT FINANCE

"Finance is the life blood of any business activity". Exporters approach bankers and private financial institutions to get finance in order to

meet different types of expenses for their business activity. Generally, exporters approach commercial banks for export credit, because they provide export credit at lower rate of interest. To promote exports and to motivate exporters Government of India provides export credit a concessional rate of interest. This is one of the incentives provided to exporters. Exporters approach commercial banks and the Export-Import Bank of India in order to get export credit. They utilise this incentive for the promotion of exports. "For promoting the country’s exports the banks play a key role by providing timely, and adequate assistance to the exporter community".\(^5\)

Finance is the most significant aspect in export trade. Once the export order is received, production of exportable commodities should take in time. It requires adequate finance for procuring the needed raw materials and other components. In some cases, materials are to be imported from foreign countries. It requires foreign currency. Unless the financial requirements for exports are fulfilled, an export order cannot be met in the scheduled time. Further getting payment for the export cargo will take some time. Adequate credit facilities are to be extended to exporters till they receive their export proceeds from foreign countries. Realising the significance of export finance and ‘to encourage exports, the Reserve Bank

of India has come forward to extend export finance to Indian exporters at a concessional rate.

It is equally important that finance should be available at relatively attractive terms. "Cost of finance is one of the important constituents of cost that enter into the price of the product. If the exporter has to bear a high cost in the form of a high rate of interest he cannot reasonably be expected to be competitive in the market, and therefore, there is a need to provide him cheap finance so as to ensure his competitive ability in the market."\(^6\) Those firms or companies, which are efficient, from the financial markets also. "Exporting firms with a proven record in fiercely competitive international markets are treated favourably by capital markets. They face lesser finance constraints than firms that operate mainly in domestic markets that have been largely protected. Thus the financial markets have successfully offered an enabling environment for exporting firms to grow."\(^7\) "The key to success in the international market place seems to be the attitude 'I will make what you need' and not 'I will sell what I


make". To meet the needs of the customers in the international market, finance is required by all businessmen, specifically exporters.

2.5.1 TYPES OF EXPORT FINANCE

There are two types of export finance. They are

1. Pre-shipment credit (or) Packing credit

2. Post-shipment credit.

2.5.1.1 PRE-SHIPMENT CREDIT:

The Reserve Bank of India has defined pre-shipment credit as "any loan to an exporter for financing the purchase, processing, manufacturing or packing of goods."

"A pre-shipment credit or packing credit is any loan or advance granted to an exporter for financing the purchase, processing, manufacturing or packing of goods meant for export."*


“Packing credit may be taken as equivalent to ‘cash credit’ in domestic business except that cash credit facility is sanctioned as a continuous/running facility whereas packing credit advance is disbursed for a specific purpose to enable the exporter to meet a specific export obligation. Every pre-shipment advance is, therefore, considered as a separate loan account different from a domestic advance”. 10

Pre-shipment credit is granted by commercial banks for purchasing and processing of materials, manufacturing of exportable commodities and packing of such commodities.

Packing credit granted by the commercial banks for a period of 180 days from the date of sanctioning the credit. Further extension will be given for a period of 90 days, provided adequate reasons are given by the exporters for such extension.

2.5.1.2 POST-SHIPMENT FINANCE:

“The exporters require post-shipment finance as there is a time gap between the selling of goods and receiving payment from their buyers abroad. This period of waiting depends upon the payment terms. The period

10."Handbook of Export Promotion and Incentives", Nabi publication, Delhi, 1999, p.537.
of waiting is longer when the payment term is open account of consignment
of DA (Documents against Acceptance) as against letter of credit.\textsuperscript{11}

"The post-shipment finance is the financial facility extended by
the banks after the goods have been shipped and against the submission of
export documents evidencing the despatch of goods. Post-shipment finance
portfolio is in existence since the day the international trade has been
known, but more precisely after the first world war whereby the international
trade is ever increasing, and the shipping documents against which the
exporters are getting financial facilities are well accepted."\textsuperscript{12}

"Post-shipment credit also includes any loan or advance
granted to an exporter in consideration of or on the scrutiny of any duty
drawback or any cash payment by way of incentive from the Marketing
Development Fund or any other relevant sources."\textsuperscript{13}

\begin{itemize}
\item \textsuperscript{11} Wali, B.M., Kakir, A.B., "Export Management", Sterling Publishers
\item \textsuperscript{12} Dhingra, I.C., "Special and Preferred Sector Finance", Sultan Chand &
Sons, New Delhi, 2000, p.637.
\item \textsuperscript{13} Chandhuri, B.K., "Finance of Foreign Trade and Foreign Exchange",
\end{itemize}
The post-shipment finance in India is met by banks by

1. negotiating documents under letter of credit,
2. purchasing DP (Document against Payment) and DA bills,
3. lending against export bills tendered for collection abroad, and
4. financing against the security of claims for export incentives.
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Pre-shipment credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Upto 180 days</td>
<td>12.1</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>12.4</td>
<td>10.0</td>
</tr>
<tr>
<td>2. Beyond 180 days and upto 270 days.</td>
<td>14.08</td>
<td>16.25</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
<td>14.4</td>
<td>13.0</td>
</tr>
<tr>
<td>3. Against incentives receivable from Govt. covered by ECGC Guarantee upto 90 days</td>
<td>12.1</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>12.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Post-shipment credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Demand bills for transit period (as specified by FEDAI)</td>
<td>12.19</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>Not exceeding 11.4</td>
<td>Not exceeding 10.0</td>
</tr>
<tr>
<td>2. Usance bills (for total period comprising Usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11.4</td>
<td>Not exceeding 12.0</td>
</tr>
<tr>
<td>--------------</td>
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<td>---------</td>
</tr>
<tr>
<td>a. Upto 90 days</td>
<td>18.17</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>12.4</td>
<td>Not exceeding 10.0</td>
</tr>
<tr>
<td>b. Beyond 90 days and upto six months from the date of shipment.</td>
<td>18.17</td>
<td>18.5</td>
<td>15.75</td>
<td>15.0</td>
<td>15.0</td>
<td>Free, 21.10.96</td>
<td>Free 15%</td>
<td>Not exceeding 14.13</td>
</tr>
<tr>
<td>c. Beyond six months from the date of shipment.</td>
<td>23.67</td>
<td>24.5</td>
<td>15.75</td>
<td>Free</td>
<td>Free</td>
<td>Free</td>
<td>Free</td>
<td>Free</td>
</tr>
<tr>
<td>3. Against incentives (receivable from Govt. covered by ECGC Guarantee upto 90 days)</td>
<td>12.47</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>Not exceeding 11.75</td>
<td>Not exceeding 10.0</td>
</tr>
<tr>
<td>4. Against undrawn balance upto 90 days.</td>
<td>12.47</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>11.4</td>
<td>Not exceeding 10.0</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>---------</td>
<td>---------</td>
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<td>---------</td>
<td>---------</td>
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<td>---------</td>
</tr>
<tr>
<td>5. Against retention money (for supplies portion only) payable with in one year from the date of shipment upto 90 days</td>
<td>12.47</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>Not exceeding 10.0</td>
<td></td>
</tr>
<tr>
<td>3. Deferred credit</td>
<td>12.47</td>
<td>14.25</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>Feb 8, 96</td>
<td>13 July 5, 96</td>
<td>Free (FDA)</td>
</tr>
<tr>
<td>Deferred credit for the period beyond 180 days</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Free</td>
<td>96 Free</td>
<td>Oct 21, 96</td>
</tr>
<tr>
<td>4. Export credit not otherwise specified.</td>
<td>-</td>
<td>18.5</td>
<td>12.0</td>
<td>Free</td>
<td>Free</td>
<td>Free</td>
<td>-</td>
<td>Minimum 20.00</td>
</tr>
<tr>
<td>a. Pre-shipment credit</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Post-shipment credit</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duty Drawback credit scheme 1976 upto 90 days</td>
<td>Free of interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.5.2 RATE OF INTEREST CHARGED ON EXPORT FINANCE

Table 2.4 shows the interest rate charged by commercial banks on export credit. Interest rate for the export credit in this chapter is the average interest rate for export credit for the period 1991-92 to 1998-99. The rate of interest for pre-shipment credit (upto 180 days) was 12.1 percent in 1991-92 but 10 percent in 1998-99. The interest rate for packing credit beyond 180 days and upto 270 days was 14.08 percent in 1991-92 but 13.0 percent in 1998-99.

In 1991-'92 the rate of interest charged by commercial banks against incentives receivable from Government covered by the ECGC Guarantee upto 90 days was 12.1 percent, but it was 10 percent in 1998-'99.

Commercial banks charged 12.19 percent interest rate against post-shipment credit i.e., Demand bills for transit period (as specified by Fedai) in 1991-'92, but it was 10 percent in 1998-'99.

The researcher found that the interest rate for post-shipment credit- beyond six months from the date of shipment was 23.67 percent in 1991-'92 but it was 10 percent only in 1998-'99. The researcher also found that the interest rate for deferred credit was 12.47 percent in 1991-92 but it was free during 1998-'99.

“Interest charged on export credit stood at 11 percent as on April, 1998 while the bank rate stood at 9 percent. Subsequently, the rate came down first to 8 percent and then to 7 percent. In the year 2000, the rate of interest
charged to export credit is 10%. Generally it varies every quarter in a year. China charges only 3.20 percent interest on export credit while Japan offers at 1.37 percent. Indonesia charges 2.15 percent interest on export credit, and Singapore and Taiwan charge 5.5 percent and 4.95 percent respectively.\footnote{14}

Table 2.5 shows the export credit (outstanding) during the period March 1990 to 1997.

**TABLE 2.5**

**EXPORT CREDIT**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount outstanding (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 23,1990</td>
<td>8,245</td>
</tr>
<tr>
<td>March 22,1991</td>
<td>9,186</td>
</tr>
<tr>
<td>March 20,1992</td>
<td>10,261</td>
</tr>
<tr>
<td>March 31,1995</td>
<td>25,051</td>
</tr>
<tr>
<td>March 29,1996</td>
<td>29,590</td>
</tr>
<tr>
<td>March 28,1997</td>
<td>28,588</td>
</tr>
</tbody>
</table>


\footnote{14}{The Economic Times, April, 19, 2001, p.16.}
2.5.3 GROSS BANK CREDIT AND EXPORT CREDIT

During 1998-99 the Gross Bank credit sanctioned was Rs.41,729 crore by the scheduled commercial banks. But it was Rs.98,906 crore in 1999-2000. During 1998-'99 export credit was Rs.1,944 crore but it was Rs.3,227 crore in 1999-2000. During 1998-'99 the percentage of export credit to gross bank credit was 4.66, and the percentage was 5.48 during 1999-2000. The percentage of export credit to gross bank credit is increased by 0.76 during 1999-2000.

2.6 EXPORT PROMOTION CAPITAL GOODS SCHEME

Export Promotion Capital Goods Scheme (EPCG) has been introduced for the purpose of encouraging exports. Under this scheme capital goods import is permitted with concessional import duty. Modern textile mills and readymade garment units are in need of modern machinery and improved equipment available in the developed and newly industrialised nations. International market concentrates on quality. Advanced and updated technology oriented plant and machinery contribute quality which is insisted on the international market.

2.6.1 HISTORY OF EPCG SCHEME

In order to help the Indian exporters to import advanced machinery from the developed countries, the Government of India introduced the novel scheme, “the Export Promotion of Capital Goods (EPCG) Scheme” from the year 1990-'91. While introducing this scheme 15 percent import duty
was charged for the capital goods import upto Rs.20 crore. Import above Rs.20 crore, import duty was nil.

The EPCG scheme is totally export linked. If the capital goods import is made under 15 percent import duty (upto Rs.20 crore), the export commitment is 4 times of the CIF value of import during 5 years, from the date the license to import is given under the EPCG scheme. If the capital goods import is made under the zero duty scheme, the export commitment is 6 times of the CIF value of import during 8 years. This scheme is an incentive to the exporters to import capital goods which are needed to produce exportable commodities at concessional duty.

The percentage of meeting the export commitment by the exporters under the EPCG scheme is getting down since 1992-93. Under this scheme, exports are not increased upto the expected level. In the year 1992-93, exporters met only 53.5 percent of their export obligation and it has further decreased to 28.70 percent in 1993-94 and 14.50 percent in 1994-95. The poor performance of the EPCG scheme is also one of the reasons for the sluggish export growth.

In the year 1995, the import duty under this scheme was reduced from 15 percent to 10 percent. This was levied for the import of capital goods upto Rs.20 crore. Capital goods import above Rs.20 crore, the same zero import duty continued zero import duty was applied to the equipments import upto Rs.5 crore for agriculture operations.
In the year 1998, the Commerce Ministry of the Government of India modified the EPCG scheme. Under the modified scheme, no import duty is charged for the import of capital goods above Rs.1 crore. This zero import duty is applicable to the import of equipment upto Rs.10 lakhs for the manufacture of computer software.

Zero import duty is applicable for the import of capital goods above Rs.20 crore. Small exporters are not in a position to avail of this scheme. Their import of capital goods requirement is not above Rs.20 crore. Only large exporters utilised the zero duty scheme. In order to help the small exporters, the Government of India reduced the capital goods import limit for zero duty above Rs.20 crore to Rs. 1 crore. For computer software it is Rs.10 lakh.

Exporters are directed to pay normal import duty as penalty if they fail to honour their export commitment under the EPCG scheme. In some cases the imported capital goods may be confiscated by the Government and the import license may be withdrawn. This scheme is totally modified in the new EXIM Policy, April, 2000. 5% import duty is levied for on import of capital goods under this scheme and there is no threshold limit for capital goods imports.

2.6.2 AMOUNT OF EPCG INCENTIVE PROVIDED BY THE GOVERNMENT OF INDIA

The amount provided under the EPCG scheme by the Central Government to the exporters for the period 1997-98 to 2000-2001 (April - November) is given in Table 2.6
## TABLE 2.6

VALUE OF EPCG INCENTIVE TO EXPORTERS

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount Revenue foregone Rs. in crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 – ‘98</td>
<td>1,300</td>
</tr>
<tr>
<td>1998 – ‘99 Upto December</td>
<td>973</td>
</tr>
<tr>
<td>1999 – 2000 (April – November)</td>
<td>751</td>
</tr>
<tr>
<td>2000 – 2001 (April - November )</td>
<td>766</td>
</tr>
</tbody>
</table>


Table 2.6 shows that the value of incentive under the EPCG provided by the Central Government to the exporters was Rs.1,300 crore in 1997-98 and it has decreased to Rs.751 crore in 1999-2000 (April - November) and Rs.766 crore in 2000-2001 (April - November).

### 2.7 MARKET DEVELOPMENT ASSISTANCE

The MDA fund (now called Market Development Assistance) was established by the Government of India in 1963-64 for promotion of exports. The resources of the fund are utilised for the development of export market for Indian goods. The fund helps the exporters by way of refunding expenditure incurred on certain market development programmes. It is used for assisting
(a) Approved organisations like Export Promotion Councils, organisations of Trade and Industries of a non-commercial character and specially recognized as approved organisations for assistance,

(b) registered export houses, and

(c) export – oriented units whose schemes for exports are sponsored by an approved organisation.

Schemes and projects which are eligible for assistance from the MDF are

i) Market and commodity research

ii) Area surveys and research programmes

iii) Export publicity and dissemination of information.

iv) Participation in trades fair and exhibition

v) Trade delegations and study teams

vi) Quality control and pre-shipment inspection

vii) Establishment of offices and branches in countries abroad.

viii) Grants – in – aid to Export Promotion Councils and other approved organisations for the development of exports and the promotion of foreign trade; and
ix) Any other scheme which is calculated generally to promote the development of markets for Indian products and commodities abroad.

Market Development Assistance (MDA) is one of the export promotion schemes of the Ministry of Commerce. It is available to the approved organisations (Export Promotion Council) including personnel thereof, export houses, trading houses, associations of small scale industries and individual exporters sponsored by the approved organisations/export houses/association of small scale industries.

Market development assistance grant is disbursed by two agencies. They are Federation of Indian Export Organisations and Ministry of Commerce. Individual exporters should send their applications to the Federation of Indian Export Organisations or the Ministry of Commerce for obtaining the MDA assistance at least 28 days before the commencement of the activity i.e. the date on which the export promotion activity is commenced.

After completion of the export promotion activity, the exporters should submit a claim in the prescribed format for reimbursement of the expenses upto the admissible limit. After verifying the claim, the Federation of Indian Export Organisations / the Ministry of Commerce will release the grant to the exporters.
2.7.1 MAXIMUM LIMIT FOR MARKET DEVELOPMENT ASSISTANCE TO EXPORT HOUSES

2.7.1.1 SALES-CUM-STUDY TOUR GRANT

One representative is permitted to visit foreign countries in order to get orders for their goods. For this purpose Air India Economy Class is to be used.

Only two sales-cum-study tours are permitted in one calendar year. One additional tour will be permitted to Latin American / Caribbean countries.

MAXIMUM LIMIT FOR GRANT:

<table>
<thead>
<tr>
<th>Manufacturing small-scale units / export houses / trading houses / star trading houses.</th>
<th>60% of air fare and 30% of daily allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large scale units / merchant export houses</td>
<td>25% of air fare and 12.5 % of daily allowance</td>
</tr>
</tbody>
</table>

2.7.1.2 PARTICIPATION IN FAIRS / EXHIBITIONS ABROAD

One representative is permitted for one export unit to participate in the fairs / exhibitions abroad. Air India Economy Class is to be used. Only three participations in fairs / exhibitions abroad and one additional participation in Latin American / Caribbean countries for one export unit in a calendar year is permitted.
**RATE OF GRANT**

| (i) Participation through Export Promotion Councils | 1. 50% of air fare  
| | 2. 25% of daily allowance for two days before the fair plus duration of the fair and one day after the fair.  
| | 3. 25% of the expenditure incurred for publicity (minimum Rs.10,000/-) |
| (ii) Participation through Indian Trade Promotion Organisation | In addition to above three incentives, the following is also provided. Space rent at 50% is allowed subject to submission of a certificate from the Indian Trade Promotion Organisation that the space rent is not subsidised. |
| (iii) Direct participation | In addition to above three (mentioned in (i)), the following incentives are also provided.  
| | 1. Space rent at 50% (maximum of Rs.2 lakhs only)  
| | 2. Space rent at 50% or Rs.2000 per day for the period of the fair/exhibition.  
| | 3. Water / Electricity Charges at 50% |

Grant for repeated participations in the same fair / exhibition under market development assistance.
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
</tr>
<tr>
<td>Air Fare</td>
<td>50%</td>
</tr>
<tr>
<td>DA</td>
<td>25%</td>
</tr>
<tr>
<td>Publicity (Rs.10000)</td>
<td>25%</td>
</tr>
<tr>
<td>Space rent</td>
<td>50%</td>
</tr>
<tr>
<td>Interpreter</td>
<td>50%</td>
</tr>
<tr>
<td>Electricity / Water</td>
<td>50%</td>
</tr>
</tbody>
</table>

2.7.1.3 GRANT FOR ADVERTISEMENT IN FOREIGN MEDIA:

A maximum grant of 25% or Rs.2 lakhs in one calendar year is allowed for publication and advertisement together in foreign media. This grant is given for brand publicity in foreign countries.

2.7.1.4 RESEARCH AND PRODUCT DEVELOPMENT:

To promote research and Product Development, a grant is admissible at the rate of 50% of the approved expenditure.
2.7.1.5 OPENING OF FOREIGN OFFICE:

Maintaining a foreign office in a foreign country is expensive. To compensate this to some extent, the Government of India provides an MDA grant. The ultimate aim of this MDA grant is to promote exports.

The grant is admissible at 25% for the 1st year and 20% on office rent and staff (one senior and one junior). Where any foreign office is opened by a group of two or more export houses, MDA grant will be 331/3% of expenditure on accommodation and staff (2 numbers only) for the first year and 25% for the second year.

2.7.1.6 OPENING OF WAREHOUSE:

The Ministry of Commerce, Government of India provides a grant to the exporters under this head of the MDA – opening of a warehouse. The Grant is admissible at the rate of 25% for three years.

2.7.1.7 GRANT-IN-AID TO EXPORT PROMOTION AND MARKET DEVELOPMENT ORGANISATIONS

MDA grant is available to 20 Export Promotion Councils, Grantee Institutions / approved organisations such as Federation of Indian Export Organisations, Indian Institute of Foreign Trade, Indian Institute of Packaging, Indian Council of Arbitration and Indian Diamond Institute and Export Houses, Trading Houses and Star Trading Houses etc., The budget provision for MDA for all these organisations are approved by the MDA Committee. The actual expenditure under this head during the last five years was as under:
TABLE 2.7

ACTUAL EXPENDITURE INCURRED BY THE
GOVERNMENT OF INDIA UNDER MDA

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EXPENDITURE (Rs. in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>12.97</td>
</tr>
<tr>
<td>1995-96</td>
<td>16.00</td>
</tr>
<tr>
<td>1996-97</td>
<td>19.91</td>
</tr>
<tr>
<td>1997-98</td>
<td>20.95</td>
</tr>
<tr>
<td>1998-99</td>
<td>9.95</td>
</tr>
<tr>
<td>(Upto November 1998)</td>
<td></td>
</tr>
</tbody>
</table>


Table 2.7 shows that actual expenditure incurred by the Government under MDA was Rs. 12.97 crore in the year 1994-1995 and it has increased to Rs. 20.95 crore in 1997-1998.

2.8 INCOME TAX RELIEF TO EXPORTERS:

2.8.1 NO TAX ON EXPORT PROFITS:

Under the provisions of section 80 HHC of the Income Tax Act, 100 percent deduction is allowed to exporters on the profit derived from the export of goods to foreign countries.

The essential requirements of section 80 HHC are listed below:

(a) The assessee (exporter) must be an Indian Company or a person resident in India.
(b) The assessee should be involved in the business of exporting goods as merchandise to foreign countries.

(c) Income tax deduction is also available to the supplies of goods as merchandise to export houses / trading houses.

(d) Income tax deduction under section 80 HHC is allowed if the sale proceeds are receivable in convertible foreign exchange. Reduction under this section will be allowed only if the sale proceeds are receivable in or brought into India within a period of six months from the end of the relevant previous year or within such extended time as the Reserve Bank of India may allow, with effect from the assessment year 1991-92.

In case the assessee exports goods manufactured by him, he is eligible to claim income-tax deduction from export profit. Such deduction can be computed as follows as per the Income Tax Act, 1961.
(Profits of the Business
As computed under the
head "Profits and gains
of business or
profession" -90% of any
profit on sale of
Replenishment License
exam scrips, CCS, Duty
Drawback or receipt of
brokerage,

\[
\text{Deduction} = \text{Export Turnover} \times \ \text{Total Turnover}
\]

Commission, Interest,
rent etc., included in the
profits - profits of a
foreign branch. Office,
warehouse or
establishment)

\[
\text{Export Turnover} + \ \text{Total Turnover}
\]

90% of any profit trading in
replenishment license
2.8.2 TAX CONCESSION FOR THE EXPORT OF COMPUTER SOFTWARE AND FOR IMPORT OF SYSTEM:

Under section 80 HHE of the Income Tax Act, income tax concession is provided for the export of computer software and for the import of system.

Indian companies and resident non-tax payers will be eligible for a deduction of an amount equal to the profits raised from the export of computer software.

Any lump sum payment for getting use of systems software supplied by a non-resident manufacturer along with hardware shall not be subjected to income tax. The approval of the central government of the agreement for applying the lowest rate of tax at 30% shall not be applicable in cases where the royalty payment is for the use of software permitted to be imported under OGL.

50% Tax Exemption for the Profits from Overseas Projects.

Under section 80 HHB, the Income Tax Act, 50 percent tax exemption is provided for the profits from overseas projects.

Under section 10A of the income tax act, a five year tax holiday is provided to the units in the Free Trade Zone / Export Processing Zones and Electronic Hardware / Software Technology Parks. The profits of the newly established industrial units in free trade zones are not taxed for a period of five
years, out of eight assessment years relevant to the previous year in which the units begin production.

The tax holding period for export processing zone/export oriented units is extended from five years to ten years as a package to boost export announced by the Commerce Ministry, Government of India on 4th August, 1998. Under section 10B of the Income Tax Act, the 100% export oriented units can avail tax holiday for a period of ten years.

This assistance is revised in the Union Budget 2000. The revision is given as follows.

**TABLE 2.8**

**INCOME TAX EXEMPTION FROM EXPORT PROFIT**

<table>
<thead>
<tr>
<th>Year</th>
<th>Export profit exempt from income-tax.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>80% of export profit</td>
</tr>
<tr>
<td>2001</td>
<td>60% of export profit</td>
</tr>
<tr>
<td>2002</td>
<td>40% of export profit</td>
</tr>
<tr>
<td>2003</td>
<td>20% of export profit</td>
</tr>
<tr>
<td>2004</td>
<td>Nil</td>
</tr>
</tbody>
</table>
2.9 SALES TAX EXEMPTION

When goods are exported to foreign countries Indian exporters need not pay sales tax to the state government and to the central government. This incentive is provided to exporters in order to boost Indian exports.

2.9.1 EXEMPTION UNDER CENTRAL SALES TAX ACT, 1956

The Parliament is empowered to levy sales tax on sales in the course of export. However, in order to boost India’s exports, the government has exempted export sales from levy of the Central Sales Tax Act also. The export sales contemplated to be exempt have been defined under section 5 of the Central Sales Tax Act.

For claiming exemption from sales tax the exporter has to get himself registered with the sales tax authorities. He is required to produce documentary evidence of the goods exported at the time of Sales Tax Assessment. The deduction for the purpose of exports made out of the country shall be allowed on furnishing the following documents.

i) Export Invoice.

ii) Bill of lading/Air Cargo Bill duly stamped by the custom authorities

Besides, the books of accounts, etc shall also be scrutinised by the assessing officer.
To simplify the assessment of exporters, the Central Sales Tax authorities (Delhi) have prepared a document and it should be furnished by the exporters in lieu of the accounts books and other voluminous papers/documents which they had been filing with the department. The format replaces all other documents for export sales out of the country.

2.10 CASH COMPENSATORY SUPPORT

This scheme was introduced in 1972 to compensate the exporters for the loss they incurred with regard to the exports of non-traditional goods. The losses which are covered by this support are related to the competition faced abroad by our exporters. The compensation is provided at specified rates which may be *ad valorem* (depending on the declared FOB value of the export goods) or specific (per unit of goods exported). Rates which are fixed commodity-wise are amended or withdrawn from time to time depending upon the government's policies. The scheme compensates the exporters for the higher costs incurred by them in relation to foreign competitors. The higher costs may be with regard to:

(a) higher domestic cost of inputs,
(b) higher interest on export credit,
(c) costs of delays at ports, and
(d) higher product promotion costs.
The basic principles for cash compensatory support were identified by the Export-import Policies and Procedures Committee known as the Alexander Committee. They are:

The Cash Compensatory Support (CCS) must compensate fully the indirect taxes which the exporter has to pay for his inputs imported or domestically purchased but which are not refunded.

The cash compensatory support should be adequate to encourage an exporter to adapt adequate marketing strategies and to neutralise the disadvantages of freight, etc., so as to be competitive in the export market. As per the World Bank Report "Indian exporters are forced to pay $80 per container more than their foreign competitors in actual cash costs to move their cargo through domestic ports". The cash compensatory support should be adequate to take care of promotional costs in the case of new products in new markets.

The cash compensatory scheme has been criticized by some writers on different grounds. The major criticisms relate to the following aspects:

1. The scheme is likely to encourage commercially non-viable units.

2. Supporting of such units may amount to dumping.

3. The procedure and manner of support are faulty.

4. Supporting of units indefinitely through the CCS scheme will not help in making self-reliant in the long run.

5. The cost data for obtaining the CCS is inadequate, manipulated and may even lead to pushing up domestic resource cost and pulling down the value of rupee.

6. The Central Government has given more assistance under the CCS Scheme upto 1983-84. The following table shows the year-wise assistance to the exporters under the CCS Scheme.

**TABLE 2.9**

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Amount (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976 - 1977</td>
<td>226.26</td>
</tr>
<tr>
<td>1977 - 1978</td>
<td>311.33</td>
</tr>
<tr>
<td>1978 - 1979</td>
<td>358.92</td>
</tr>
<tr>
<td>1979 - 1980</td>
<td>344.16</td>
</tr>
<tr>
<td>1980 - 1981</td>
<td>376.57</td>
</tr>
<tr>
<td>1981 - 1982</td>
<td>452.48</td>
</tr>
<tr>
<td>1982 - 1983</td>
<td>473.50</td>
</tr>
<tr>
<td>1983 - 1984</td>
<td>550.00</td>
</tr>
</tbody>
</table>

2.11 EXPORT INCENTIVES IN FOREIGN COUNTRIES

2.11.1 SPECIAL INCENTIVES FOR MANUFACTURERS AND EXPORTERS ARE GRANTED BY THE REPUBLIC OF NAMIBIA.

1. To assist exporters in securing new markets, export promotion funding of efforts will be considered, up to a maximum of 50 percent of direct costs.

2. Taxable income derived from the export of manufactured goods, with the exception of fish and meat products, whether they have been produced in Namibia or not, shall be reduced by an allowance equal to 80 percent of the amount.

2.11.2 THE BRAZILIAN EXPORT PROMOTION POLICY:

The Government of Brazil gives income-tax concessions to exporters. They are the following

i) Expenses abroad for promotions and advertisement of domestic products are considered part of the production cost and are consequently deductible from taxable profits.

ii) Payments of interest and commission due abroad on transactions related to exports are exempt from the income tax.

iii) Remittances made abroad for services related to export processing are exempt from income-tax.

iv) The rate of interest charged to exporting firms by official banks is lower than that normally charged in similar domestic transactions.
v) Whenever imported goods are used as input in the production of exportable goods, they are exempt from tariffs. Exporters can claim duty drawback on such imported goods which are used as input in the production of exportable goods.

2.11.3 EXPORT INCENTIVES IN PANAMA:

The Government of Panama offers the exporters the following tax incentives:

Tax exemption during the life of the contract (maximum 20 years) from taxes, duties and other charges related to the importation of machinery, equipment, accessories and material used in the construction of the facilities. Exemption from property and income taxes and taxes on capital or assets for the first ten years of operation. From the eleventh year until the end of the contract, the exporter is exempt from income tax on net earnings reinvested in the development and expansion of the EPZ, provided that the amount reinvested exceeds 20 percent of the net taxable income for the fiscal year the reinvestment is made.

Exporter may carry over losses from the year the losses are incurred. The tenant companies exporting from an EPZ are offered the following benefits:

Exemption from taxes, duties and other charges related to the importation of machinery, equipment, raw materials, semi-processed goods
and other materials such as packaging, fuel and lubricants used in the manufacturing process.

Exemption from income tax on profits arising from exports, and exemption from sales taxes, as well as from taxes on capital assets of the export industry.

2.11.4 EXPORT INCENTIVES IN KENYA

A number of export processing zones have been set up in Nairobi and Mombasa enjoying.

i. ten year tax holiday and a flat rate of 25 percent tax for the next 10 years,

ii. exemption from import duties on machinery, raw materials and intermediate inputs and

iii. preferential access for exports from Kenya to world markets under a numbers of special access and duty exemption programmes.

2.11.5 EXPORT INCENTIVES IN JORDAN

JEDCO (Jordan Export Development and Commercial Centers Corporation) offers a wide range of services, directly to exporters and indirectly through the country's various private sector organisations. They include product promotion, market information and research, technical assistance for product design and development and process improvement and export development advisory services.
JEDCO satisfies the needs of exporters. It also undertakes a range of activities, from arranging inward and outward missions to participate in trade fairs and presenting seminars. Since only the four countries have responded to the researcher by sending their export incentive details, by mail, the above comparison is made and further they are at the stage of economic development.

2.12 SUMMARY

Duty Drawback is an incentive provided by the Central Government to the exporters for encouraging exports. It helps the exporters to keep the Indian products competitive in the overseas market. The duty paid on the inputs (indigenous and imported) used in the production of export goods can be refunded after the exporters provide proof of the export of such goods. The refund of duty is called duty drawback.

The amount of duty drawback facility provided by the Central Government to exporters was Rs.3,600 crore in 1997-98 and it has increased to Rs. 3,680 crore in 2000-2001 (April - November).

The Duty Entitlement Pass Book is an import license allowing the import of goods with adjustment of customs duty against the duty entitlement earned on exports.

The objective of the DEPB Scheme is to neutralise the incidence of the basic customs duty and surcharge thereof on the import content of the export product. The neutralisation is provided by way of grant of duty credit against the export product.
The amount of credit under DEPB facility provided by the Central Government to exporters was Rs. 470 crore in 1997-98 and it has increased to Rs.2,707 crore in 1999-2000 (April-November) and Rs.3,224 crore in 2000-2001 (April-November).

Special Import Licenses are granted only where export proceeds have been realised in the foreign exchange. Special Import Licenses are freely transferable and are valid for import of items as given in the book titled 'Classifications of Export and Import items'. The imports under the Special Import Licence are subject to normal customs duties. The value of the SIL facility provided by the Central Government to exporters was Rs.300 crore in 1997-98 and it has decreased to Rs. 213 crore in 2000-2001 (April-November). The SIL incentive scheme was abolished by the Government of India from 1st April, 2001.

Export Finance is to promote exports and to motivate exporters. The Government of India provides export credit at a concessional rate of interest. Export credit is given in two forms: (1) Pre-shipment credit (2) Post-shipment credit. The interest charged on export credit stood at 11 percent as on April, 1998 while the bank rate stood at 9 percent. In the year 2000, the rate of interest charged on export credit was 10%. Generally it varies every quarter in a year.

The Export Promotion Capital Goods Scheme has been introduced for the purpose of encouraging exports. Under this scheme capital
goods import is permitted with concessional import duty. Exporters who want to modernise their industries can utilise the EPCG scheme. If they want to capture the international market, they have to modernise their industry and produce quality products. The international market concentrates on quality. Advanced and updated technology-oriented plant and machinery contribute to quality which is insisted in the international market.

The value of the EPCG facility provided by the Central Government to exporters was Rs. 1300 crore in 1997-98 and it has decreased to Rs. 751 crore in 1999-2000 (April-November) and Rs.766 crore in 2000-2001 (April - November).

The Government of India has introduced another export incentive scheme called the MDA to promote exports. It is one of the export promotion schemes of the Ministry of Commerce. The MDA grant is dispersed by two agencies - the Federation of Indian Export Organisations and the Ministry of Commerce. The MDA scheme consists of:

i) Sales-cum-study team abroad,

ii) Participation in fairs/exhibition abroad,

iii) Publicity and advertisement,

iv) Research and Product Development.

v) Opening of Foreign Office, and
vi) Opening of warehouse abroad.

One representative is permitted to visit foreign countries in order to get orders for their goods. Only two sales-cum-study tours are permitted in one calendar year. One additional tour is permitted to Latin American/Caribbean countries.

A maximum grant of 25% or Rs. 2 lakhs in one calendar year is allowed for publication and advertisement together in foreign media. This grant is given for brand publicity in foreign countries. 50% of the approved expenditure is permitted to promote research and product development. The grant is admissible at the rate of 25% for three years for the opening of warehouse in the foreign countries by the exporters under the MDA scheme.

Maintaining a foreign office is expensive. In order to compensate this to some extent, the Government of India provides the MDA grant. Export incentive schemes play an important and active role in the promotion of the foreign trade of any country.