CHAPTER IV

EXPORT FINANCING MECHANISMS

INTRODUCTION

Promotion of exports is of paramount importance to developing economies, in view of the persistently high level of imports and increasing external debt-servicing payments. The task of increasing their export trade is however rendered extremely difficult by tariff barriers, import restrictions and the formation of economic communities in different regions of the world. The developing countries have therefore been actively adopting various export promotion strategies and intensifying measures for achieving a stronger growth of their traditional and non traditional exports particularly since the early 1970s.\(^1\)

Importance of Export Credit

Competition in world markets, both for consumer and capital goods is becoming increasingly intensified and in this situation the bargaining power has shifted from the seller to the buyer who tends to dictate terms in regard to price, quality and delivery schedule and above all insists on appropriate credit terms. The availability of an adequate supply of credit at reasonable cost, therefore greatly facilitates the task of the exporter and serves as an incentive to augment his export efforts. The difficult foreign exchange position in many

\(^1\) Op. cit., p.16
countries makes it imperative for importers to ask for credits of varying duration and the credit terms offered often influence the buyer’s choice of supplier and thus the source of supply.

**EXPORT CREDIT**

The availability of export credit and cost has thus become an important tool of export promotion in developing countries owing to inability of any exporters to finance large scale export transactions on credit terms in overseas markets from their own resources. They are constrained to turn to their governments and financial institutions for assistance in this regard. Even the leading exporting countries like USA, Germany and Japan have been increasingly developing comprehensive systems and institutions for the provision of export finance. While effecting structural changes in export from primary products to semi-manufactured and manufactured goods it is necessary for developing countries to introduce suitable export financing system and the export financing mechanisms so evolved should embrace the two essential aspects of credit: (1) Availability of credit (2) cost of credit.

**Financial needs of Exporters**

The exporter may be able to meet the financing needs of an export transaction through the advance payment he secures from the overseas buyer and the credit allowed to him by his suppliers, supplemented by his own funds to a limited extent. However the major portion of export finance required for
the execution of sales contracts or orders needs to be provided by the commercial banking system and other financial institutions. The commercial banks play a very important role in the provision of the working capital finance required by the exports and in more developed countries, there are also specialised institutions such as development banks, EXIM Bank and ECGC for settlement of claims are the other institutions created in this regard for export financing facilities to meet the diverse needs of exporters.

Export credit may be classified from two main stand points

The stage at which it is provided and its duration Firstly the credit extended for facilitating production, processing, or packing of export goods up to the point at which they were placed on board the ships or other means of transportation is termed as pre-shipment credit.

**Pre-Shipment Finance**

- Packing credit
- Advance against cash incentives.
- Advance against Red Clause LCs.
- Foreign Currency pre-shipment credit scheme. ²

Packing credit

The network of commercial banks provide pre-shipment credit at concessional rate of interest to the eligible exporters to meet the working capital requirements from the receipt of the export order till the shipment of goods. The packing credit is governed by the "Packing credit Rule" of the Reserve Bank of India. 3

The Banks which advanced the credit are eligible for refinance from the Reserve Bank of India.

QUANTUM OF FINANCE

The packing credit extended by the bank is sufficient to cover the value of the export order except for the cost if any to be incurred after the stage of shipments. Normally it should not exceed the FOB value of goods to be exported or their domestic cost whichever is less. Sometimes packing credit may be granted up to the domestic cost of goods even if it is higher than the FOB value provided the goods are covered by the export incentive of the government of India, and Export Production Finance Guarantee of ECGC is obtained.

ADVANCES AGAINST RED CLAUSE LCs

The Red Clause LCs is normal LC which contains a special clause authorising the negotiating or confirming bank, to make immediate payment to the exporter in full or in part of the amount of the LCs or to make payment to the exporter from time to time as per the terms provided therein and against specified documents of fulfilment of specified conditions.

The red clause LC is generally opened to enable the exporter to procure materials and execute the foreign buyers order without looking up too much of his own funds. The advance made to the exporter is of course at the risk of the opening bank and is restricted to the amount authorised in the red clause LC. The bank must ensure that there are proper instructions on the red clause LC as regards reimbursement of the amount to be advanced to the exporter. Generally the reimbursement of pre-shipment advance under a red clause LC is provided by the negotiation of a clear draft under the LC in which case the invoice submitted at the time of negotiation of the documents should be shown a deduction to the extent of the drawings already made. Before advancing against a red clause LC it is advisable to ensure that the bank will be in a position to negotiate or purchase the bills drawn under the LC. This can be ascertained by reviewing the LC and ensuring that its terms and conditions are not violating any Exchange control Regulations within the sanctioned limit of the bank.
PRE-SHIPMENT FINANCE IN FOREIGN CURRENCY

The EXIM Bank has introduced a foreign currency pre-shipment credit (FCPC) scheme in 1991 to help the exporters to avail of foreign currency loans to finance the cost of imported inputs for manufacture of export products. This scheme would be operated through the bankers of the exporter concerned. Export houses with annual export turnover exceeding Rs. 10 crores are eligible for finance under the scheme. Manufacturing units with minimum export orientation of 25% of production or export turnover of Rs. 5 crores are also eligible. The rate of interest would be 2% higher than the rate at which EXIM Bank is able to raise the foreign resources. Out of these 2% spread, 0.5% would be available to EXIM Bank and the balance 1.5% will go to the financing bank. The foreign currency loan is to be liquidated out of the export proceeds.

PERIOD OF PRE-SHIPMENT CREDIT

The period of packing credit depends on the delivery schedule, availability of raw materials, availability of carrying, streamer and supplying space therein during the period of validity of credit. The RBI advises the commercial banks to fix the period of packing credit in the manners stated below. 4

- Medium and heavy engineering goods - 270 days (180+90days)
- Specified Commodities - 180 days.

• Other Commodities and consultancy Services - 135 days (90+45 days)

The period beyond 180 days and 90 days mentioned above may be extended by the banks with the permission of the RBI, provided the borrower satisfies the bank that he could not ship the goods due to the reason beyond his control.

The classification of exporters is shown in chart 4.1

CLASSIFICATION OF EXPORTERS
OPERATIONAL MECHANISMS FOR PRE-SHIPMENT FINANCING

Pre-Shipment finance or packing credit is essentially working capital made available for the specific purpose of purchase, processing, manufacturing of goods meant for export. All costs prior to shipment would be eligible for financing under packing credits. Two essential features of such credits are the existence of an export order and liquidation of advance out of the proceeds of relative export bills. The costs of production of a number of products may be given to exporters by their governments to enable them to compete in world markets. Cases may therefore arise of packing credits granted without margins and occasionally even in excess of the export prices. When finance has been provided against goods meant for export against firm export orders the considerations like liability to wide fluctuations in prices or difficulties in assessment of value are not applicable. The banks will entertain applications for packing credits provided the borrower is of good standing and reliability.

Besides the usual requirements like integrity, expertise, experience and credit worthiness of the exporter the under mentioned points will usually be examined by the banks while considering proposals for export packing credit.

- The capacity of the exporter to execute the orders within the stipulated delivery schedules.
- The financial viability of the export contract in the event that the export business results in a loss where other exporter has the ability to absorb such a loss.
• Whether the quantum of finance required is commensurate with the company's export turnover.

• Whether appropriate arrangements have been made for the import of raw materials, components, and where relevant the domestic purchase of such inputs.

• The spread of risk, the risk may be said to be well spread. When goods are exported to a large number of overseas buyers residing in different countries.

• Whether the exports are covered by irrevocable letters of credit, if not covered, the status of overseas buyers must be ascertained.

• The status of issuing banks where exports are covered by letters of credit.

• The status of the buyer's country—both economic and political conditions in the buyer's country may need examination to ensure that the proceeds of exports would be received in accordance with the terms of the relative agreements.

• The availability of security and whether appropriate export credit insurance cover is available.
• Whether the exchange risk has been covered if necessary by making forward contracts or by providing a suitable cushion within the price.

• Whether export trade control and exchange control regulations in force have been complied with.

• Whether the importer has complied with exchange regulations and import controls in force in his country.

• Whether the freight space has been booked on a vessel sailing well in advance of the expiry date of the credit or the latest. Bill of lading date, if such date is stipulated.

**Salient features of Pre-shipment financing**

The most common form of the advances granted by commercial Banks to exporters at the pre-shipment stage is the packing credit, and such advances are often offered by commercial Banks under the guidance of the Reserve Bank of India at concessional rate of interest. The salient features are:

• The exporters including merchant exporters are to be provided with necessary finance to enable them to import raw materials from external sources or procure locally to process manufactured goods and ship them
eventually within the terms of the LC's or sales contracts with overseas buyers.

- The exporters of all goods and commodities should be eligible for the credit.

- The advances may be sanctioned by way of overdrafts, packing credits, depending upon the items or goods to be exported and the nature of the Sales Contract.

- There should be no insistence on LCs for export. Credit should be available for all export orders whether against LC, DP, DA, basis or on open account.

- The proposals should be considered on the basis of the integrity and capability of exporters rather than on the tangible securities they can offer to banks. The credit should be available against the security of lodgement of confirmed orders or contracts of sale under LCs or otherwise. Export credit guarantees or insurance policies will be regarded as collateral.

- The extent of finance should be need-based. It may not normally exceed the f.o.b. value of goods to be exported or domestic cost of production of such goods whichever is less.
- Remittances received by exporters by way of advance payment will be credited to the pre-shipment account. Alternatively the pre-shipment credit sanctioned by the bank may be reduced to that extent.

- The pre-shipment credit is liquidated by the purchase, negotiation or discounting of the export bills. It may also be adjusted by the advances granted against export bills.

- The rate of interest should be preferential and as low as possible.

- The repayment period of credit depends on the time required for procuring, manufacturing or processing, packing and shipping the goods. In no case should it exceed 180 days or such time period as may be prescribed by the Reserve Bank of India.

**POST SHIPMENT FINANCE**

Exporters who sell goods abroad usually have to wait for some time before payment is received from overseas buyers. The period of waiting will depend upon the terms of payment, and the need for post shipment finance to strengthen the financial position of the exporter varies accordingly. Based on different terms of payment, the banks have devised various methods of financing. The central banks in many developing countries have laid down
exchange control regulation relating to the export of goods, and some of the important regulations generally stipulated for exports are:

- all exports must be declared on a prescribed form by the exporter.

- Banks handling export documents should receive remittances from importing countries or obtain reimbursement from their branches or correspondents in the countries appropriate to the final place of destination of goods.

- The amount representing the full value of the goods exported must be realised by the exporter within the prescribed time limit, generally within 180 days from the date of export.

- It is obligatory for commercial banks to maintain export bill register, indicating the full details of the export bills handled by them.

- It is generally stipulated that any reduction in the value of export bill amount after the bill has been negotiated or sent for collection requires the prior approval of exchange control.

- Commercial Bank normally watch the realisation of bill and in cases where they remain outstanding they should be followed up promptly with the exporter concerned. If the exporter fails to arrange for receipts of proceeds within a reasonable period after the expiry dates the necessary permission
for extension of time should be obtained by the exporter from the exchange control authorities.

There is no universally acceptable definition of post shipment credit. However for a developing country, it may be defined as any loan or advance granted or any other credit provided by a commercial bank to an exporter of goods from a country from the date of extending the credit after shipment of the goods to the date of realisation of the export proceeds within 180 days which is usually the maximum permissible period including the grace period. Any loan or advance granted to an exporter on the security of export incentives if any, accruing to the exporter may also be considered as post shipment credit.

While there are various forms in which the post shipment advances are granted by commercial banks all over the world, the major types of such advances are:

- Negotiation of export documents under LCs, purchase of export bills drawn under confirmed export contracts or orders.
- Advances against export bills under collection
- Advances against export incentives,
- Advances against goods exported on consignment,
- Advances against duty drawback entitlements,
- Advances against undrawn balances,
Advances against retention money.

NEGOTIATION OF EXPORT DOCUMENTS UNDER LETTERS OF CREDIT

Trading under LCs involves many parties from different countries subject to different national laws and ways of interpreting the same terms. Therefore it becomes imperative to adapt the same terminology and the same interpretation of the terms used in the LC in order to avoid disputes and to safeguard the interest of the parties involved. With this intention the International Chamber of Commerce has recently published a revised version of its uniform customs and practices for documentary credits (UCPDC). The banks in many developing countries have adopted these and therefore negotiate the export documents drawn under LC only if the LC bears a clause stating that the same is being issued subject to the (UCPDC). However when there is a contradiction between the terms of LC and the prevailing exchange control regulations, the bank handling the export document should ask the exporter to have the LC amended so that the conditions stated therein do not violate these regulations.

When the export documents are presented to the bank for negotiation the bank should make 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 draw back attached to the revocable LC that it can be cancelled or amended at any moment without obtaining the concurrence from the exporter.
Banks seldom finance or undertake negotiation of export documents drawn under this type of LC. Since irrevocable LCs cannot be cancelled or amended without the agreement of the parties thereto these types of LCs offer better security, provided all the terms and conditions of the LCs are complied with. Negotiation of documents under such LCs and financing thereunder is therefore undertaken by commercial banks.

While scrutinising export documents the banks would be expected to review the various documents with the following considerations uppermost.

**Letter of credit**

The credit may be revocable or irrevocable. The said credit may be restricted or 'open'. If the credit is restricted for negotiation to some other bank, the bank should not negotiate the bill.

- Whether the credit is valid for negotiation or has expired.
- If it has expired the validity of the credit should be extended.
- Whether the credit contains certain "Offending Clause"

**Bill of Exchange**

It must be drawn by the beneficiary on the drawee as per the terms of the credit.
It should be made payable to or endorsed in favour of the negotiating bank. Sometimes the letter of credit may authorise payment against documents. Only in such cases, it is not necessary to call for a bill of exchange.

The bill amount must be within the credit amount and should bear the same relation to the invoice value as given in the credit.

**Invoice**

The types of invoice—whether commercial or consular—are required and the number of copies needed.

The Invoice should be prepared in the name of the opener unless the credit requires otherwise.

The description of the goods must correspond with the description of credit.

The quantity of goods if given in the credit should be checked from the invoice.

**Marine Insurance Policy**

It should be checked whether the insurance policy or the certificate is required. If the policy is required, the certificate cannot be accepted.
The insurance document must be insured by an insurance company.

A policy covering the risk as required by LC should be accepted. When the credit stipulates insurance against all risks the bank only accept an insurance document containing "all risks" notation.

If the insurance policy bears a date later than the date of bill of lading the bank may refuse to accept it.

The amount of insurance policy should be as given in the credit and must be in the currency as the credit.

The policy should be endorsed in blank or in favour of the negotiating bank.

The Insurance Policy should cover the shipment during the entire voyage and should be a current and valid policy.

**Bill of Lading**

It should be submitted in all its negotiable copies unless the credit stipulates otherwise.

It should be seen whether the credit requires an "On board" or received for shipment bill of lading.
The date of bill of lading should be not later than the latest date of shipment given in the credit. If the bill of lading is submitted with undue delay after its issuance it should be considered as stale and not accepted.

The bill of lading should be clean 'Claused' bill of lading should not be accepted, unless the credit permits them.

The port of shipment and port of destination should be as given in the credit. If the transhipment is permitted a 'through bill' of lading should be accepted.

A general description of the goods in the bill of lading which does not conflict with the description as given in the credit may be accepted. The quantity should not be less than that given in the invoice. If the credit does not provide for part shipments the bill of lading should show the shipment of the entire quantity.

If the credit is opened on c.i.f. or c & f., basis the bill of lading should show that freight has been paid.

The name of the beneficiary should appear in the bill of lading as either shipper or endorser. It should be drawn and endorsed as required by the credit. Normally the bill of lading made out to the order of the shipper and blank endorsement by him is required.
Bills Purchased Under Confirmed Export Contracts or orders

Export bills not drawn under letters or credit are usually referred to as non-credit bills i.e. bills not supported by letters of credit. As the exporters do not wish to block their funds in the export transactions they raise finance on their documentary bill from the bank which 'purchases' if it is a demand bill or 'discounts' it if it is a usuance bill. The exporters are immediately paid the bill amount on submission of the documents to the bank which charges a commission or discount.

The facility of purchasing or discounting foreign bills is granted by the bank if it is satisfied about the Customer's financial standing, his reputation and business integrity and his capacity to repay the bill amount in case of non-payment. The other factors taken into consideration by the bank are the buyer's (drawee's) standing, market conditions in the importing country, the nature of the goods covered by the bill and export import trade control, exchange control regulations in the drawers and drawee's countries respectively. The bank may be unwilling to purchase or discount bills from an exporter because the amount may be in excess of the facilities which it is to offer to the drawer or it may be considered high for a particular drawee. In such cases the exporter may cover the transaction under an export credit insurance policy and the bank would grant the credit facility required by the exporter against it.
The exporter continues to be liable on the bill as its drawer until such time as the exporters on whom it is drawn pays the bill according to its tenor. If the bill is dishonoured the exporter has to pay the amount of the bill to the bank together with interest and charges. The bank also has the security of documents in documentary bills. But in the case of usance bills drawn on DA terms the bank loses control over this additional security on delivery of documents to the drawee after acceptance of the bill by him. Hence it may tighten its margin requirements while discounting such bills treating them on par with clear bills.

Before purchasing or discounting documentary bills, the bank verifies the documents in order to ensure that they are valid in negotiable form and complete in all respects. This is essential to establish that the bank's legal or security rights are not jeopardised in any way and that it is in a position to pass a valid title to the subsequent parties and ultimately to the drawee of the bill.

**Advances against Bills under collection**

Sometimes there may be no accommodation to cover the entire amount of the bill by purchasing under the available limits sanctioned to the exporters or the documents drawn under LC may have discrepancies which may not be acceptable to the overseas buyer. Therefore, the bank will not want to take risk. In such situation, considering the immediate need and financial requirements of the exporter the bank may finance to some extent out of the total bill, an amount by way of "Advance against bills under collection" The amount
advanced will be adjusted out of the proceeds of the export bill and the balance paid to the exporter.

If the bank agrees to purchase or discount or negotiate a bill it becomes in effect, the purchaser of the bill in most cases achieves the status of a holder in due course. Further the bank advances against bills sent in by the customer for collection, it does not become a party to the bill of exchange, but simply collects the proceeds as agent of its customer, it has only the hypothecation charge on the proceeds of bills collected. The bank may advance the full amount of the bills or only an agreed percentage of the total, retaining some security margin.

ADVANCES AGAINST EXPORT INCENTIVES

Several export incentives are provided to exporters under export promotional schemes, instituted by the government, to compensate exporters for some of the losses incurred in their export business. Such losses arise mainly because the domestic cost of production and prices of some export items are much higher than their international prices. Cash compensatory support is one of the important incentives given by government to eligible exporters. Advance against this CCs are made available to exporters by commercial banks as loans, generally at the post-shipment stage. These advances are treated as clean advances.
Since the full amount of cash incentives claimed by the exporters may not be received, advances are generally made within 10 to 20 percent margin. An irrevocable power of attorney has to be received for direct payment from the government authorities against the export incentive advances financed by the bank. The bank shall request the authorities to pay the claim in the name of the bank by cheque and after receipt of the cheque the advance allowed will be liquidated out of the proceeds of the cheque and the balance paid to the exporter. In the case of shortfall in the amount received, the same will be recovered from the exporter.

ADVANCES AGAINST GOODS EXPORTED ON CONSIGNMENT

Where exports are made on a consignment basis and particularly where no regular order has been obtained or contract entered into and the arrangement envisages the sale of goods abroad by the exporters' agent on the basis of available demand, there could not be an export bill. Correspondingly there would be no negotiation of an export bill, or a grant or advance against the export bill for collection. In such cases the banks may make post-shipment advances to the exporter on the basis of consignment value after retaining an appropriate margin to provide for any likely erosion in the amount of receivables.

ADVANCES AGAINST DUTY DRAWBACK ENTITLEMENTS

Where a commodity for export has an import content on which duty has been paid at the time of import, the government may allow an appropriate duty
drawback payment. Against such an entitlement a bank may give post-shipment credit for a suitable period until the release of the amount from the designated agency within the country.

ADVANCES AGAINST UNDRAWN BALANCES

In case of certain products, it is the practice of overseas importers to stipulate the drawing of an export bill for an amount less than 100 percent of the balance assessed for release on the basis either of the purity of the commodity or the weight as assessed by the importer. Even after the amount remaining so undrawn, banks may grant post-shipment credit to the exporter for a period of 90 days after retaining a suitable margin, depending upon the past experience in the realisation of the undrawn amount in the case of such products.

ADVANCES AGAINST RETENTION MONEY

In the case of overseas construction contracts where the contractual terms include the retention of a certain percentage of the payment to be released at a later date, banks may advance to the project exporters and construction contractors when it is not possible for them to obtain the release of such an amount against bank guarantee. Bank credit could be at the stipulated rate of interest applicable to post-shipment credit for a period of 90 days when the retention money is in respect of supplies and the amount is to be received within a period of one year.
MERCHANT EXPORTERS AND EXPORT HOUSES

Developing countries establishing an export financing mechanism should ensure that liberal financing facilities are made available not only to manufacturer-exporters but also to merchant exporters and export houses who have specialised in export business. The merchant exporters and export houses have necessary expertise and skills and also possess a thorough knowledge of international requirements in respect of prices, quality delivery schedules, packing and shipping arrangements for export products. They are familiar with the payment procedures and problems, if any, of importing countries and are thoroughly conversant with exchange control formalities and regulations.

In developing countries like India the contribution of export houses and merchant export development has been remarkable. They secure orders for various types of commodities and export them after concluding suitable manufacturing arrangements with domestic manufacturers during the initial stages of launching export promotion programmes in developing countries. It may be desirable to channel a greater volume of export products through the export houses where they exist particularly in the case of goods manufactured by small and medium sized industrial units scattered throughout the country. The merchant exporters and export houses perform the important function of acting as intermediary between the local manufacturers of goods and overseas buyers and are interested only in their commission on the export contracts secured by them.
Since the merchant exporters or export houses are not the manufacturers of goods to be exported they do not require finance for the manufacture, processing or packing of goods. However they do require funds to buy goods from the various manufacturing sources and export them. They generally operate on a low capital base and therefore need pre-shipment finance for procurement of goods and the execution of export orders. It often happens that although an export house has secured the export order, it may prefer not to obtain the pre-shipment finance. Instead, the manufacturer will be requested to obtain the pre-shipment finance from the bank on the strength of the export order secured by the export house. This disinclination on their part to secure bank finance may be because of a desire not to assume the liability themselves because of their other liabilities and commitments.

The financial assistance available to manufacturer exporters should normally be provided also to merchant exporters and export houses under the pre-shipment and post-shipment financing schemes. Implemented by the commercial banks, in which case the procedures for the schemes in question will be followed in these cases as well. However these intermediaries can also raise funds to meet their special requirements by way of

- Transferable credit
- Back to-back letter of credit
- Export trust receipts
Transferable credit

The transferable letter of credit is defined as a credit under which the beneficiary has the right to give instructions to the bank called upon to effect payment or acceptance or to any bank entitled to effect negotiation and to make the credit available in whole or in part to one or more third parties (second beneficiaries). The credit is one of the methods adopted by the opening bank at the instance of the opener, to facilitate the completion of an export transaction by an exporter intermediary (first beneficiary) without blocking his own funds. The exporter transfers the foreign letter of credit to the manufacturer of the goods to be exported for a lower amount, the difference being his commission, or he may transfer the credit in full if his commission is paid separately. In the former case he substitutes his own name for that of the opener and tenders his bill of exchange and invoice for that of the second beneficiary who may approach his own bank for the export packing credit. In this manner the exporter intermediary, finances his side of the export transaction at the pre-shipment stage. A transferable credit thus serves as an alternative to an export packing credit.

Back-to-back letter of credit

Pre-shipment facility is granted at times in the form of packing credit in inland LC on a back to back basis. Here the merchant exporter, the beneficiary to an irrevocable export LC uses the same as security with the banker for opening another credit in favour of the supplier calling for identical documents.
to enable him to execute the export LC. A true back-to-back LC must be issued against the foreign bank's irrevocable LC and its terms and conditions must be similar to the export LC except for the following differences:

- The credit amount will be less than that of the export LC.
- The name of the beneficiary will be that of the supplier.
- The period of validity will expire a few days earlier than the expiry date of the export LC.

**Export trust receipts**

Export packing credits are granted by some commercial banks immediately as "export trust receipt advances". In this type of advance, the pledge of goods does not precede the trust receipt facility. A merchant exporter approaches the commercial bank for an export packing credit, and his bank grants it as an export trust receipt advance, as per its practice, against the exporter executing the export trust receipt in which the exporter undertakes to use the amount of the advance for the purchase of goods to be exported, to hold these goods in trust for the bank as its agent, and to insure them and agrees that they will form the bank's security for the advance. The exporter further undertakes to tender the shipping documents covering these goods after shipment for negotiation or purchase and agrees that the bill proceeds are to be appropriated by the bank for liquidating the export trust receipt advance. The effect of such an export trust receipt will be that the goods or the bill or sale proceeds will be held by the exporter-customer as trustee for the bank in
respect of its pre-shipment advance to the customer. As the bank may not have any valid charge over the goods, the advances may have to be treated as a clean or unsecured advance. To avoid this situation some banks take a letter of hypothecation in addition to an export trust receipt, covering the goods under export. This type of facility is granted by bank selectively to reliable and sound exporter-customer.

**MEDIUM AND LONG TERM FINANCE FOR EXPORTS**

With the growth of exports of engineering and capital goods from some of the more industrialised developing countries it has become increasingly necessary for exporters of these goods to offer deferred payment credit facilities to overseas importers. Machinery and other engineering goods are generally exported under medium term credit, which extends up to a period of five years, whereas capital goods of high value and turnkey projects are normally sold on long term credit for a period exceeding five years and sometimes extending to ten years. The Non-traditional exports on medium and long term arrangements may be classified as under.

- Machinery and equipments
- Turnkey projects

Developing countries also export civil construction projects and undertake service contracts such as the provision of consultancy services. These tasks do not usually involve an offer of term credits unless the amount
involved is very large. However they require certain essential financial services from the commercial banks and according to the various types of projects exporters' needs arise at two distinct stages

- The pre tender stage
- The post tender stage

At the pre tender stage, no financial assistance is required by the exporter but certain services may be necessary, such as the collection of essential information regarding the credit standing of the buyer, exchange regulations and the balance of payments position of the importing countries. While submitting the tender, the exporter may be required to furnish a bid bond to the overseas buyer up to a specified percentage of the estimated value of the contract. At the post tender stage, the exporter needs certain bonding facilities which are in the nature of non-financing facilities. These bonding or guarantee facilities are generally required by the exporters of both turnkey projects and construction contracts. According to the normal practice the extent of the guarantees required is quite substantial as indicated below:

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bid Bond</td>
<td>Normally up to 5% of the value of the project valid for 3 to 6 months to be furnished at the time of the submission of the tenders.</td>
</tr>
<tr>
<td>Performance Bond</td>
<td>Normally at 5% to 10% of the value of the project to be given at the time of signing of the contract. Validity extends over the full contract period including the maintenance period.</td>
</tr>
</tbody>
</table>
Advance payment guarantee  At 10% to 20% of the value of project after the contract has been signed. Valid until such time as the advance payment has been fully recovered from progress bills.

Retention money guarantee  5% to 10% of the value of the contract valid up to the end of the maintenance period.

Besides these non-financing facilities by way of guarantee at post tender stage, exporters need financing facilities by way of pre-shipment and post-shipment financing.

Pre-shipment financing

The pre-shipment credit requirements of exporters depend upon the types of equipment exported and the contractual obligations developing upon them. The position in the case of suppliers of high value capital equipment, turnkey projects, construction projects and consultancy services is briefly indicated below:

SUPPLIERS OF CAPITAL EQUIPMENT AND TURNKEY PROJECTS

Pre-shipment credit is provided by specialised institutions like EXIM Bank in participation with commercial banks to exporters for executing large value of export contracts. The assistance is provided by way of term loans for periods beyond six months. The duration of the loan depends on the manufacturing cycle, which will usually be quite long. The operational
guidelines laid down for pre-shipment credits on short term basis are also applicable to exporters of capital equipment and the turnkey projects. In the case of turnkey projects, the responsibility of exporter involves the rendering of services like design, civil construction, erection and commissioning of plant or supervision thereof along with the supply of equipment. In cases where the equipment is to be procured from various domestic sources, suitable inland letters of credit limits will also be needed by the exporters in addition to the pre-shipment facilities.

**Overseas Construction Contracts**

Construction contracts viz., contracts involving erection, civil works and commissioning apart from the supply of equipment also need financial assistance at the pre-shipment stage. Banks generally grant pre-shipment advances for financing the preliminary expenses in connection with the execution of the contract i.e., for transporting the necessary manpower and materials and for the purchase of consumer goods required for construction. The advances are generally sanctioned at concessional rates on the basis of firm contracts secured from abroad, which should be adjusted by the negotiation of bills relating to the contract or by remittances received from abroad under the contract. The normal period of such advances is for a maximum of six months which could be extended in justifiable cases.
Consultancy services

Banks may grant consultancy firms suitable pre-shipment credit facilities against consultancy agreements for meeting the expenses of the technical and other staff employed for the project and for the purchase of any materials required for it. Wherever necessary, the computer system and programmes produced for export purposes by the management consultancy firms may be considered as cover for the pre-shipment advances. The period and the extent of credit may be decided on the basis of the nature and scope of the consultancy contract and the terms thereof.

Post shipment loan

Exporters of engineering and capital goods and turnkey projects will be required to offer deferred payment credit facilities to overseas buyers. For such exports the overseas buyers will furnish suitable securities for the deferred payment instalments in favour of the exporters. The exporters make arrangement with their bankers or specialised institutions for term export credit in their favour. The offer of credit can be classified into two:

- Suppliers credit
- Buyer's credit

Suppliers Credit

Under supplier's credit, the exporter of the goods and equipment gives credit to his buyer generally exceeding the period of six months or one year up
to five to ten years depending on the nature of equipment. The credit is generally covered by a bank guarantee from the importer.

**Buyers' credit**

If on the other hand, the foreign buyer is afforded credit by a bank or financial institution and the exporter is paid the export value in cash for goods by the bank or institution concerned, the relative export contract is specified under buyer's credit.

The post-shipment loans granted to exporters by a bank or a financial institution will be subject to their compliance with certain guidelines formulated by the bank or institution. Some of the important considerations in the sanction of the term credits are given below.

**Period of deferred credit**

Four major factors - anticipated life span of the goods to be exported, the nature of the goods to be exported, the extent of foreign competition and the nature of the foreign market and the contract value form the basis for determining the period of credit. In the case of capital and producer of goods, maximum credit period may be five years and in the case of turnkey projects it may be ten years or more.
Advance or down payment

Generally the importer is required to pay 15 to 20 percent of the contract value and the credit component will be remaining 80 to 85 percent. This will depend on the features of each particular case.

Period of moratorium

In the case of turnkey projects, a period of moratorium or a grace period may be allowed depending on the nature of the project.

Security

The security for the deferred receivables i.e., the credit component allowed by banks to the foreign importer will be a letter of credit or a guarantee from a bank in the country of import or in a third country acceptable to the financing institutions.

Forward exchange cover

Where the contracts are involved in foreign currency, the exporter will be required to cover the deferred receivables under a forward exchange contract for a total credit period, when a long-term exchange cover scheme is operated in the exporting country by the central bank or any other institution. Alternatively it may be permissible for the exporter to assess his risk in respect
of each instalment that is due for receipt and obtain forward cover for that instalment alone.

**EXPORT CREDIT GUARANTEE AND INSURANCE ARRANGEMENTS**

For export financing facilities it is desirable that banks or exporters cover themselves appropriately against various risks by means of export credit guarantee and insurance policies. Export credit insurance agencies have the task of minimising the risk that their country's exporters are not to face any problems for their international sales transactions. As such these agencies have a significant trade promotion role to play because they can help to encourage the business community to overcome certain hesitation that may exist in doing business with unknown or distant buyers and market.

**THE ROLE OF EXPORT CREDIT GUARANTEE CORPORATION OF INDIA**

To operate successfully over the long term, Export Credit Guarantee Corporation of India Ltd was established by Government of India in July 1957 with the name of Export Risks Insurance Corporation. In 1964 it was transformed into Export Credit & Guarantee Corporation Ltd. To bring the Indian identity into sharper focus the corporation's name was once again changed to the present name. The primary goal of ECGC is to support and strengthen the export promotion drive in India.
Main activities of ECGC

ECGC provides a wide range of credit risk insurance cover to exporters against the loss in export of goods and services. It also offers guarantees to banks and financial institutions to enable the exporters to obtain better facilities from banks.  

The cover offered by ECGC to the exporters are

- Standard policies to exporters to protect them against payment risks involved in export on short term credit.
- Specific policies designed to protect them against payment risks involved in
  - Exports on deferred payment terms
  - Services rendered to foreign parties
  - Construction works and turnkey projects undertaken abroad.

The guarantees offered by ECGC to the banks are

- Packing credit guarantee
- Export production finance guarantee
- Post-shipment export credit guarantee
- Export finance guarantee
- Export performance guarantee
- Export finance (Overseas Lending) guarantee.

1 Chandrasekaran, P, Faculty member, SBPT College, Bombay. IIB, Jan-Mar. 1995.
Standard Policies

The standard policies of ECGC provides cover for exporters for short term export. The different type of policies are.

- Shipment (comprehensive risks) policy to cover both commercial and political risks from the date of shipment.
- Shipment (political risks) policy to cover only political risk from the date of shipment.
- Contracts (comprehensive risks) policy to cover both commercial and political risks from the date of contract.
- Contracts (political risks) policy to cover only political risks from the date of contract.

Risks covered under this policy are

- Commercial risks
  - Insolvency of the overseas buyer
  - protracted default by the overseas buyer to pay for the goods accepted by him.
  - repudiation - buyer failure to accept goods subject to certain conditions.
- Political risks
  - Implication of restrictions on remittances by the government in buyer's country or any government action which may block or delay payment to exporter.
- War, revolution or civil disturbances in buyer's country.
- New import licensing restrictions or cancellations of a valid import licence in the buyer's country.
- Payment of additional handling transport or insurance charges occasioned by interruption or diversion of voyage which cannot be recovered from the buyer. Any other cause of loss occurring outside India not normally insured by commercial insurers and beyond the control of exporter and the buyer.
- Risks not covered
  - Commercial disputes raised by the buyer.
  - Causes inherent in the nature of goods.
  - Buyer's failure to obtain necessary import or exchange authorisation from authorities in his country.
  - Default or insolvency of any agent of the exporter or collecting bank.
  - General or marine risks which are covered by commercial insurers.
  - Exchange fluctuation risk.

**Percentage of cover and maximum liability**

ECGC normally pays 90 percent of the losses on account of political or commercial risks. In the event of loss due to repudiation of contractual obligation by the buyer, ECGC indemnifies the exporter up to 90 percent of the loss if the final and enforceable decree against the overseas buyer is obtained in a competent court of law in the buyer's country. An exporter is required to insure all the shipments that may be made by him during the next two years.
except those made against advance payment or irrecoverable Letter of credit confirmed by banks in India.

ECGC also fixes a maximum liability up to which it would accept liability for shipments made in each of the policy years. The commercial risks covered by ECGC are subject to the condition that a credit limit is approved by ECGC on each buyer. Credit limit is the limit up to which claim can be paid under the policy for losses on account of commercial risks.

**Premium and Reporting**

The premium rates vary according to the risk involved and the country for which goods are exported. When payment risk becomes too high in a country, ECGC provides cover for shipments to such countries on a restricted basis. In order to get cover for these countries prior approval of ECGC is required for export.

The exporters who are holding shipment policies should send a declaration of shipments every month to ECGC. In the case of contract policy all outstanding contracts should be declared to ECGC immediately after the policy is issued. Thereafter a monthly declaration of contracts concluded and shipments made by him to be reported to ECGC. Along with above declarations a monthly declaration of all bills remaining unpaid for more than 30 days should also be sent to ECGC.
Settlement of claims

If the risk covered by ECGC materialises the exporter is eligible for the claim. If the overseas buyer goes insolvent, the exporter becomes eligible for a claim one month after his loss is admitted to banks against the insolvents' estate or after four months from the due date whichever is earlier. In case of protracted defaults, claim is payable after four months from the due date. In case of restricted cover countries, ECGC will settle claims after the waiting period. In case of commercial dispute ECGC will consider the claim when a decree is obtained by the exporter establishing his claim in the country of the buyer. After the settlement of claim the exporter should make all efforts to recover the amount from the buyer in order to share the amount with ECGC and comply with exchange control requirements.

Specific Policies

Contracts for export of capital goods or turnkey projects or construction works or rendering services abroad are insured by the ECGC on a case to case basis. The type of specific policies issued by ECGC for this purpose are:

- Specific shipments (comprehensive risk) policy to cover both commercial and political risks at the post shipment stage.
- Specific shipments (political risks) policy to cover only political risk at the post shipment stage in cases where the buyer is an overseas government or
payments are guaranteed by a government or by banks as made to associates.

- Specific contract (comprehensive risks) policy and
- Specific contract (political risks) policy

The risk involved in rendering services by Indian firms abroad are covered by ECGC.

- Specific services contract (political risks) policy if the payments are guaranteed by overseas government or bank.
- Specific services contract (comprehensive risks) policy for contracts concluded with private buyers not supported by bank guarantees.

Financial guarantees

The guarantees have been designed to encourage banks to give adequate credit and other facilities to exporters

Packing Credit Guarantee

Packing credit advances are given to the exporters at the pre-shipment stage for the purpose of procuring, manufacturing, processing and packing of goods. The advances are to be granted against the letter of credit or firm order. But the banks have discretion to allow these advances initially without
production of LC or order but to be submitted by the exporter within a reasonable time.

Pre-shipment advance given by banks to parties who enter into contracts for export of service or construction work abroad to meet preliminary expenses in connection with such contracts are also eligible for cover under this guarantee.

The two types of guarantees issued are

- Individual guarantee
- Whole turnover guarantee

In the case of individual guarantee the cover is taken by the bank on party wise whereas in the case of whole Turnover Packing Credit Guarantee (WTPCG), packing credit finance given to all exporters are covered. The premium payable under the individual guarantee is 10 paise per Rs 100 per month calculated on the highest amount outstanding.

Under WTPCG the premium is calculated on daily average product basis at the rate of 6 paise per Rs 100 per month on average monthly products. The percentage of loss covered under the individual guarantee is 66.67 percent whereas in the case of WTPCG the cover is 75 percent of the loss, excepting in the case of advances for export of goods of hazardous nature like explosives and marine products where the cover available is 66.67 percent, while the advance to a small scale exporter the cover granted is 90 percent.
BANK'S OBLIGATIONS AND RESPONSIBILITIES UNDER THE GUARANTEE

The bank must comply with all the terms and conditions contained in the WTPCG document, particularly due payment of premium and observance of the other terms and conditions. The bank while giving advance and until these are paid must exercise such care and diligence and prudence as a banker is expected in the normal course of business. The bank is expected to inform the corporation as soon as it comes to know that:

- an exporter is in financial difficulties and
- there have been certain changes in the circumstances which have a bearing on the risk insured.

Obligations and Responsibilities

- Reporting of limits
- Approval of limits in excess of discretionary limits
- Monthly declarations and payment of premium
- Report of default - Nursing programme

Claims

The claim should be filed by the bank in the prescribed form within six months from the date of report of default. Depending upon the merit of the claim ECGC will settle the same after the "waiting period". Even after the
settlement of claim the bank has to follow-up with the exporters for recovery and share the amount as per the ratio of settlement.

**Export production finance guarantee**

This guarantee covers the advance granted by banks to the exporters against incentives at the pre-shipment stage. The purpose of this guarantee is to enable banks to sanction advances at the pre-shipment stage to the full extent of cost of production when it exceeds the FOB value of the contract /order. The extent of cover and premium are the same as for packing credit guarantee. Banks having WTPCG or WTPSG are eligible for concessional premium rate and higher coverage.

**Post-shipment export credit guarantee**

Post shipment finance given to exporters by banks through purchase, negotiation or discount of export bills or advance against such bills qualifies for this guarantee. However the exporter concerned should hold suitable shipments or contracts policy of ECGC to cover the overseas credit risks. Under this scheme banks are protected upto 75 percent against the loss that may arise due to insolvency or protracted default of the exporter. Normally claims are paid under the guarantee four months after the due date of payment. The premium rate for this guarantee is 7 paise per Rs 100/- per month. Post-shipment export credit guarantee can also be had even if an exporter does not hold an ECGC
policy for finance granted against LC bills, provided that an exporter makes
shipment solely against letters of credit. The premium rate for this cover is 10
paise per Rs.100/- per month on the highest amount outstanding on any day
during the month and cover is 75 percent. Advances against bills under Letters
of Credit opened by banks in countries placed under restricted cover shall be
subject to prior approval of the ECGC.

Whole Turnover Post shipment guarantee

The scheme covers post-shipment credit given to policy holders as well
as non policy holders and the banks have the option to cover advances against
LCs. The monthly declaration with total products, payment of premium on
average products, declaration of defaults and regulation of account having
irregularities will be the same as in the case of whole turnover packing credit
guarantee.

Percentage of cover and premium

The percentage of cover under this guarantee would be 85 per cent in
the case of ECGC policy holders and 60 per cent in respect of exporters who do
not hold ECGC policy. The percentage of cover for small scale exporting units
holding ECGC policy will be 90 percent and 65 percent in case of those who
do not hold ECGC policy.
The premium payable is on an average daily product basis as in the case of WTPCG. The rate of premium will be 5 paise per Rs. 100 per month in case of bank which opt to cover excluding LC advances and 4 paise per Rs. 100/- per month in the case of all advances including LCs are covered. Declaration will be submitted similar to the one under WTPCG.

**Export Finance Guarantee**

This guarantee covers post-shipment advances granted by banks to exporters against export incentives, receivables. The extent of cover and the premium rate are similar as for post-shipment guarantee.

**Export Performance Guarantee**

Exporters are often called upon to execute bonds duly guaranteed by an Indian bank at various stages of export business. An exporter who desires to quote for a foreign tender may have to furnish a bank guarantee for the bid bond. If he wins the contract he may have to furnish bank guarantees to foreign buyers to ensure due performance or against advance payment or in lieu of retention money or to a foreign bank in case he has to raise overseas finance for his contract. Further for obtaining import licences for raw materials or capital goods, exporters may have to execute an undertaking to export goods of specified value within a stipulated time duly supported by bank guarantees. Bank guarantees are also furnished by exporters to the customs, central excise or sales tax authorities for the purpose of clearing goods without payment of
duty or exemption from tax for goods procured for export. Exporters also furnish guarantees in support of their export obligations to export promotion councils, commodity boards, STC etc. To provide protection to banks which issue the above type of guarantees ECGC has evolved the export performance guarantee.

Premium rate for this guarantee is 7.5 paise per Rs. 100 per month. Normally cover is extended up to 75 percent of loss but in the case of guarantees in connection with the bid bonds, performance bonds, advance payment and local finance guarantees and guarantees in lieu of retention money the cover may be increased up to 90 percent subject to proportionate increase in premium. In case of invocation of guarantee by the foreign beneficiary banks may lodge claim immediately after they pay the amount guaranteed and call on the exporter for re-imbursement. In other cases claim is admitted after a waiting period of four months.

**Transfer Guarantee**

Transfer guarantee seeks to safeguard banks in India against the losses arising out of insolvency of or default by the opening bank or due to certain political risks such as war, transfer delays or moratorium which may delay or prevent funds to the banks in India.

Transfer guarantee is issued at the option of the bank either to cover political risk alone or for covering both political and commercial risks. Loss
due to political risks is covered up to 90 percent and loss due to commercial risks up to 75 percent. Premium will be charged at rates applicable normally to ECGC policy covering export of goods.

**Export Finance (Overseas Lending) Guarantee**

If a bank facing an overseas project provides a foreign currency loan to the contractor it can protect itself from the risk of non-payment by the contractor by obtaining Export Finance (Overseas Lending) guarantee. Premium rate will be 0.90 percent per annum for 75 percent cover and 1.08 percent per annum for 90 percent cover. Premium is payable in Indian Rupees claims under the guarantee will also be paid only in Indian Rupees.

**Special Schemes**

**The Exchange Fluctuation Risk Cover Scheme**

The Exchange Fluctuation risk cover schemes are intended to provide a measure of protection to exporters of capital goods, civil engineering contracts and consultants who have often to receive payments over a period of years for their export, construction work or services, where such payment are to be received in foreign currency, they are open to exchange fluctuation risk when forward exchange market does not provide cover for such deferred payments.

The exchange risk cover is available for payments schedule over a period of 12 months or more up to a maximum of 15 years. Cover can be
obtained from the date of bidding right up to final instalment. At the stage of bidding an exporter or contractor can obtain Exchange Fluctuation Risk (Bid) cover. The basis of cover will be a 'reference rate' agreed upon. The reference rate can be the rate prevailing on the date of bid or a rate approximating it. The cover will be provided initially for a period of twelve months and can be extended if necessary. If the bid is successful, the exporter or contractor is required to obtain Exchange Fluctuations (contract) cover for all payments due under the contract. The reference rate for the contract cover will be either the reference rate used for the Bid cover or rate prevailing on the date of contract at the option of the exporter or contractor.

**TRENDS IN EXPORT CREDIT BY COMMERCIAL BANKS**

Since export credit grows with growth in exports, many important factors which affect exports determine export credit requirements as well. These factors at macro level include exchange rate of rupee, availability of incentives and others. However the amount of exports can be considered as the single most important factor determining export credit. The relationship between the exports and export credit by commercial banks during the last ten years is given table 4.1.
Table 4.1

EXPORTS AND EXPORT CREDIT BY COMMERCIAL BANKS

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports</th>
<th>Total Bank credit for exports</th>
<th>Bank credit as percentage of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>6711</td>
<td>1637</td>
<td>24.39</td>
</tr>
<tr>
<td>1981-82</td>
<td>7806</td>
<td>1729</td>
<td>22.15</td>
</tr>
<tr>
<td>1982-83</td>
<td>8803</td>
<td>1724</td>
<td>19.58</td>
</tr>
<tr>
<td>1983-84</td>
<td>9771</td>
<td>2080</td>
<td>21.29</td>
</tr>
<tr>
<td>1984-85</td>
<td>11741</td>
<td>2327</td>
<td>19.81</td>
</tr>
<tr>
<td>1985-86</td>
<td>10895</td>
<td>2493</td>
<td>22.82</td>
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<tr>
<td>1986-87</td>
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<td>25.02</td>
</tr>
<tr>
<td>1987-88</td>
<td>15674</td>
<td>4068</td>
<td>25.93</td>
</tr>
<tr>
<td>1988-89</td>
<td>20232</td>
<td>6394</td>
<td>31.61</td>
</tr>
<tr>
<td>1989-90</td>
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</tr>
<tr>
<td>1992-93</td>
<td>53668</td>
<td>15038</td>
<td>28.00</td>
</tr>
<tr>
<td>1993-94</td>
<td>69547</td>
<td>16986</td>
<td>24.42</td>
</tr>
</tbody>
</table>

Source: i) Report on current and finance, RBI various issues.

Table 4.1 reveals that the export credit by commercial banks, on an average comprise 24.60 per cent of the total exports of the country. The above computations do not take into account the deferred credit given by banks and other agencies. It can therefore safely be concluded that more than 1/4 of the total exports of country have been financed by banking system.
However the export credit by the banks is not substantial out of deployment of gross bank credit. It is given in table 4.2

Table 4.2

<table>
<thead>
<tr>
<th>Year</th>
<th>Total credit</th>
<th>Gross bank credit</th>
<th>Export credit as percentage of bank credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>1637</td>
<td>25888</td>
<td>6.32</td>
</tr>
<tr>
<td>1981-82</td>
<td>1729</td>
<td>29192</td>
<td>5.93</td>
</tr>
<tr>
<td>1982-83</td>
<td>1724</td>
<td>34491</td>
<td>4.99</td>
</tr>
<tr>
<td>1983-84</td>
<td>2080</td>
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<td>7.46</td>
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<td>8.05</td>
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<td>9153</td>
<td>117723</td>
<td>7.78</td>
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<tr>
<td>1991-92</td>
<td>10625</td>
<td>141800</td>
<td>7.49</td>
</tr>
<tr>
<td>1992-93</td>
<td>15038</td>
<td>152735</td>
<td>9.84</td>
</tr>
</tbody>
</table>

Source: Report on currency and finance, RBI various issues.

Table 4.2 discloses that export credit by commercial banks constituted on an average 5.32 per cent of the gross bank credit during the period from 1980-81 to 1987-88. However the proportion improved subsequently on an
average 8.12 per cent during the period from 1988-89 to 1992-93. Hence there is an increasing trend for total export credit.

The comparative position regarding the growth in exports and pre-shipment credit as well as post shipment credit is given in table 4.3 and 4.4.

Table 4.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports</th>
<th>Simple growth of exports (%)</th>
<th>Pre shipment credit</th>
<th>Growth in pre shipment credit (%)</th>
<th>Post shipment credit</th>
<th>Growth in post shipment credit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>6711</td>
<td>5</td>
<td>931</td>
<td>NA</td>
<td>706</td>
<td>NA</td>
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<tr>
<td>1981-82</td>
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<td>778</td>
<td>10.2</td>
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<tr>
<td>1982-83</td>
<td>8803</td>
<td>13</td>
<td>987</td>
<td>3.8</td>
<td>737</td>
<td>-5.3</td>
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<tr>
<td>1983-84</td>
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<td>12.2</td>
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<td>32.9</td>
<td>1705</td>
<td>27.5</td>
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<td>3737</td>
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<td>10278</td>
<td>-8.46</td>
<td>6708</td>
<td>76.1</td>
</tr>
</tbody>
</table>

Source:

i) Report on Currency and finance RBI various issues
iii) RBI records

Note: Pre and post-shipment credits do not include deferred credit.
Table 4.4.

AVERAGE GROWTH RATES OF EXPORT, PRE AND POST-SHIPMENT CREDITS

<table>
<thead>
<tr>
<th>Period</th>
<th>Average growth in exports</th>
<th>Average growth in pre shipment credit</th>
<th>Average growth in post shipment credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81 to 1985-86</td>
<td>9.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1986-87 to 1993-94</td>
<td>26.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1980-81 to 1985-86</td>
<td>-</td>
<td>8.9</td>
<td>9.4</td>
</tr>
<tr>
<td>1986-87 to 1993-94</td>
<td>-</td>
<td>30.5</td>
<td>28.1</td>
</tr>
</tbody>
</table>

Source: calculated from Table 4.3

The trends in table 4.3 and 4.4 reveal that the average growth of exports in rupee terms during 1980-81 to 1985-86 has been 9.7 percent, it grew at a much higher rate of 26.3 per cent during next five years from 1986-87 to 1991-92. The pre and post shipment credit at current prices followed a similar growth rate. Average growth rates in pre and post-shipment credit during 1980-81 to 1985-86 were only 8.9 and 9.4 per cent respectively. During 1986-87 to 1993-94 the growth rates were much higher at 30.5 and 28.1 per cent respectively.

**INTEREST RATE STRUCTURE FOR EXPORT CREDIT**

One of the issues often debated is whether the cost of export credit in India is comparable to major developing countries. Not much of the data available on the subject except the report of the committee to study the
structure of interest rates for export credit in India constituted by the RBI in 1986. According to the report of the committee such comparison is not conceptually realistic if normal interest rates on commercial credits are determined on extraneous basis rather than their underlying cost, which is in reality, present in most developing countries including India. However, the committee observed that the differential in favour of export credit in India was by and large the same as prevalent in countries like Pakistan and Bangladesh. Further eligibility of concessional credit in those countries is limited to a few select items as against the wider coverage in India. In many other countries like South Korea, Indonesia, Taiwan, Malaysia, Singapore etc., the interest rate differential varies between 1.5 percent to 6.5 percent. However in absolute terms the lowest interest rate in Taiwan is 5.75 per cent at the pre shipment stage as well as for short term export promotion loans.

The interest rate structure on export credit in India is given below:

In comparison with other countries the high cost of bank credit would no doubt affect adversely the profitability especially the small manufacturer as well as indirect exporters. Notwithstanding the continued depreciation of Indian rupee this is likely to affect the export promotion measures keeping particularly in view, the international competitiveness from cost angle.
Table 4.5

INTEREST RATES ON EXPORT CREDIT OF SCHEDULED COMMERCIAL BANKS

<table>
<thead>
<tr>
<th>I</th>
<th>Present rate of interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-shipment credit</td>
<td></td>
</tr>
<tr>
<td>1. Up to 180 days</td>
<td>13.0</td>
</tr>
<tr>
<td>2. Beyond 180 days and up to 270 days</td>
<td>15.0</td>
</tr>
<tr>
<td>II</td>
<td></td>
</tr>
<tr>
<td>Post-shipment credit</td>
<td></td>
</tr>
<tr>
<td>1. Up to 90 days</td>
<td>13.0</td>
</tr>
<tr>
<td>2. Beyond 90 days and up to 180 days</td>
<td>15.0</td>
</tr>
<tr>
<td>3. Beyond 180 days</td>
<td>20.0</td>
</tr>
<tr>
<td>III</td>
<td></td>
</tr>
<tr>
<td>Export credit not otherwise specified</td>
<td>15.0 (min)</td>
</tr>
</tbody>
</table>


MICRO FACTOR DETERMINING EXPORT FINANCE

The past trends of export credit by commercial banks was analysed. The futuristic dimensions are however, more important with a view to appreciate the impending challenges ahead. The liberalisation of the economy coupled with continued aggressive thrust towards export promotion for better management of the external sector would necessarily mean that the banks have to plan and budget for the huge export credit needs of the country in future. Though the macro level factors, such as exchange rate of rupee, unit value of exports, existence of incentives etc., indirectly influence the export credit estimation, the single most factor determining export finance is however the level of exports.
Regression Analysis Explaining Export Credit

Two log linear regression equations have been estimated by ordinary least square (OLS) method. This regression analysis pertains to the 1980's. The purpose of running regression was to ascertain whether export is the important determinant of pre-shipment and post shipment credit.

The two estimated equations explaining pre and post-shipment export credits are presented in Table 4.6

Table 4.6

<table>
<thead>
<tr>
<th>Equation</th>
<th>In PRSEC</th>
<th>$R^2$</th>
<th>$F$-Statistics</th>
<th>Mean of dependent variable</th>
<th>No of Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$\ln PRSEC = -4.5763 + 1.2755 \ln EXP$</td>
<td>0.96</td>
<td>207.55</td>
<td>7.41</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>$\ln POSEC = -4.8352 + 1.2723 \ln EXP$</td>
<td>0.96</td>
<td>187.95</td>
<td>7.12</td>
<td>10</td>
</tr>
</tbody>
</table>

Where,

- $PRSEC$ = Pre-Shipment credit at current prices.
- $POSEC$ = Post-Shipment credit at current prices.
- $EXP$ = f.o.b. Values of exports at current prices.

All the coefficients are significant (2.tail test) at one per cent level.
Table 4.6 clearly indicates that coefficients of export in both the equations have turned out to be highly significant. Moreover each equation explains 96 per cent variation in export credit ($R^2$ is 96 percent). The values of slope coefficient in both the equations are the same i.e., 1.27, implying that one percent increase in exports results in 1.27 per cent increase in export credit outstanding. In other words the export credit requirement with respect to export is typically elastic.

MACRO ECONOMIC FACTORS INFLUENCING THE EXPORT

The growth of exports in the 1990's may depend on.

- Continuity in government's export promotion policies
- Profitability vis-à-vis international markets.
- Recovery in economic growth in the industrialised countries.
- Extent of pressure on the balance of payment position.
- Ease or difficulty in availability of external finance.
- Extent of competition from other countries and so on.

EXPORT GROWTH RATE

The export growth rate for the entire Eighth Plan Period (1992-97) has been set at 13.6 per cent in volume terms, pegging the ratio of current account deficits GDP at 1.4 percent. According to government's plan export should grow by almost 25 per cent in current rupee terms. The calculations of average growth rate of exports during 1986-87 to 1991-92 suggests a 26 per cent