A CRITICAL ANALYSIS OF EXPORT CREDIT INSTITUTIONS IN INDIA

ABSTRACT

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ABSTRACT

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In the ancient period, barter system was in use. Gradually it was replaced by the idea of exchanging goods for gold and precious metals and as time went by. Traders eventually accepted coins and currencies in return for goods and services. From the early days the realities of economics have played an important part in international trade. Thus, it was when buyers could not afford to pay for merchandise immediately, credit extensions began to be granted, allowing the buyers to receive the goods but pay at a later date. Credit extensions and financial assistance have emerged as important factors in today’s international business environment, the success of exports, among other things depends upon extensions of export credit. Competition in the world markets is not confirmed to price and quality alone but it extends to credit terms also.

It is important for a country to develop and maintain an efficient system of providing export credit lest it should become a bottle neck in winning an export contract in a way it adds to international competitive strength of exporters of a country. Short term (a period not to exceed 180 days) finance is provided by the commercial banks, where as long term export credit is provided by the EXIM bank of India. The insurance cover to Indian exporters is provided by the wholly government owned export credit guarantee corporation of India (ECGC).

An export credit is an insurance, guarantee or financing arrangement which allows a foreign buyer of exported goods and/or services to defer payments over a period of time. Export credit is required in pre-shipment and post-shipment stages. It is needed either in Indian currency or foreign currency.

Numerous working groups, panels and task forces relating to important export sectors and other high powered committees were set up in the recent
past. Their objectives were to review the structure of the import and export policies, activise, the role of policy instruments of export promotion review the performance of India’s foreign trade and the promotional programmes with particular reference to specific product and markets and review the institutional service support to back the trade promotion strategies. In this context, salient features of the recent three high level committees, namely – The Alexander Committee, The Tandon Committee and The Abid Hussain deserve special mention for the purposes of present thesis entitled, A Critical Analysis of Export Credit Institutions in India, two Institutions namely, Export-Import bank of India (EXIM Bank) and Export Credit Guarantee corporation (ECGC) of India have been studied.

The EXIM bank was set up by an Act of Parliament in September 1981. The bank commenced it operations in March 1982. EXIM bank is a wholly Government owned financial institution. The EXIM bank was established, “for providing financial assistance to exporters, to importers and for functioning as the principal financial institution for coordinating the working of the institutions engaged in financing export and imports of goods and services with a view to promoting the country’s international trade. It takes the promotional activities and provides counseling services to persons engaged/connected with export-import business. It has taken over the export loan and guarantee portfolio of Industrial Development Bank of India (IDBI).

The bank was established with the following objectives:
To translate national foreign trade policies into concrete action points; to provide alternate financing solutions to the Indian exporter, aiding him in his efforts to be internationally competitive; to develop mutually beneficial relationships with the international financial community; to initiate and participate in debates on issues central to India’s International trade; to forge close working relationships with other export development and financing agencies, multilateral funding agencies and national trade and investment promotion agencies; to anticipate and absorb new developments in banking,
export financing and information technology; to be responsive to export problems of Indian exporters and pursue policy resolutions.

Exim Bank is quite unique in its global and national network of institutional and professional linkages. Bank’s five overseas offices have forged strategic institutional linkages for the bank. Bank’s Nine offices in India help to respond to regional developmental activities in the export sector.

Exim bank plays a four pronged role with regard to India’s foreign trade, those of a coordinator, a source of finance, consultant and promoter. Exim Bank has introduced lending programmes, which aims at providing loans to Indian companies, foreign governments, companies commercial banks in India.

As at March 31, 2003, the Bank had a paid capital of Rs. 6.5 billion, and net worth of Rs. 19.67 billion. It also raise funds from domestic and international markets. Exim bank shares in short term export financing.

Th Exim bank has introduced the following two schemes in this connections:

- Export Bills rediscounting scheme and refinance of export credit scheme.

The establishment of Exim bank may be regarded as a right step in the export promotion policy and programme of the government. Since its inception in 1982 to the end of 2002-2003 the total amount of loan sanctioned by the bank were Rs. 363389 million, where as for the above same period Rs. 280973 million were disbursed. Paid up capital of the bank as on March 31, 2003 was Rs. 6500 million, while it was Rs. 750 million on the end of 1982. Profit after tax during 2002-03 was Rs. 2686 million where as it was Rs. 63 million.

As part of the export promotion, the government of India set up in July 1957 the Export Risk Insurance Corporation (ERIC) whose main objective was to protect exporters against certain kinds of risks. Later on 15th January 1964 ERIC was transformed into Export Credit and Guarantee Corporation (ECGC) geared to impart a sense of security to the exporters through insuring their overseas credit risks and to encourage banks to extend liberal credit to the exporters for their various export needs through furnishing financial
guarantees. The objectives of the corporation, as listed in the Articles of Association, are:

To provide insurance to exporters against any risk of loss by reason of their failure to recover any amount payable in respect of transactions involving export; to give guarantees to or for the benefit of persons residing in or belonging to a foreign country, in connection with goods exported or services rendered from India; to give facilities for financing exports; to provide such supplementary finance as may be required for promotion and development of exports; to give loans against hypothecation of pledge of goods, title to property, for the purpose of promoting export trade; to provide financial help for the purchase of Indian goods on extended payment terms; to provide guarantees in respect of advances given by banks and other financial institutions in connection with exports of goods; to give guarantees to exporters with a view to assisting them in conducting market surveys, publicity and stock holding for the development of overseas markets and to share expenses on such promotional measures if expenses are not fully recouped with sales; to undertake such functions as may be entrusted to it by the government from time to time, including grant of credit and guarantees in foreign currency for the purpose of facilitating the import of raw materials and semi-finished goods for manufacturing and processing of goods for exports; to act as agent of the government or with the sanction of government on its own account, to give guarantees, undertake such responsibilities and discharge such functions as are considered necessary in national interest.

There are four broad categories of facilities which are extended by ECGC to exporters and financial institutions:

Standard insurance policies, which are issued to exporters to protect them against the risks of trading with overseas buyers on credit terms; specific policies, designed to protect Indian firms against payment risk involved in (a) exports on deferred terms of payment (b) services rendered to foreign parties and (c) construction works and turnkey projects under taken abroad; financial
guarantees, which are issued to banks against the risks involved in providing
credit to the exporters; and Special scheme, viz. Transfer guarantee meant to
protect banks which add.

Trading with overseas buyer is risky but when International trade is
carried on credit terms, the risk becomes all the more greater. Financial
Institutions are often reluctant to grant export credits unless adequate
guarantees are given. Although banks in India do show a flexible attitude and a
developmental bias in extending export credits, the various activities of the
ECGC have contributed significantly to increased and strengthen their
willingness to advance these credits on substantially large scale.1 The
integration of the economics has led to a substantial growth of multi sourced
transactions, where the buyer in an importing country obtains its goods from
different exporting countries. For banks, Exporters, importers and Export
Credit Agencies (ECAs) this implies a substantial amount of work. To obtain
adequate cover negotiations have to be held with all ECAs involved. Different
application forms have to be filled in, various underwriting criteria have to be
met, diverse conditions of cover have to be taken into account and each ECA
changes its own premium. A lot of time, and thus money, could be saved if the
ECAs so cooperated more closely with one another. Standardization of policies
and premium fees would be very helpful to all parties concerned.

The importance attached to export promotion by Governments in
developing countries is an important explanatory factor for the greater share of
the ECAs in developing countries in financing their national exports. Thus,
developing country ECAs are expected to be strongly involved in accelerating
exports by offering a diversity of schemes as well as through energetic business
promotion efforts.

In under writing short term business, Export Credit Agencies tend to
adopt a conveyer belt approach. This is necessary both to handle the large
volume of individual cases or contracts, often with quite small values and to
minimise administrative expenses. In the short term area, export credit agencies
sell not a guarantee but rather conditional insurance cover. Most export credit agencies do not cover disputes between seller and buyer and will normally only examine a claim after a dispute has been resolved. Political risk include non-payment due to war or civil war, the enactment of laws, that prevent the transfer of funds, and the imposition, after the export credit institution has come on risk, of export or import licensing. Devaluation or depreciation of local currency as such is not covered as a political risk. Indeed, it is not covered at all unless it is followed by the default or insolvency of the buyer, in which case the claim is normally regarded as a commercial risk claim – that is as an insolvency or default claim, without regard to the reason for the insolvency or default.

A relatively small number of export credit installations are prepared to issue separate forms of short term cover directly to banks. These can include cover directly to banks in those countries that opens letters of credit for imports from the country of export credit institution. On the basis of this cover, the bank in the exporting country may then consider confirming the letter of credit on either an open or a silent basis.

Export credit institutions’ involvement in the medium to long term financing of project is very difficult from their involvement in short term trade finance. First, of course, the horizon of risk is much longer. For example a power station may take 5 years to build, and the repayment of the loan used to finance it may take 10 years more. Thus export credit institutions that insure (or offer) these credits are faced with risks that run over 15 years or more. Individual cases can also be very large. It is not unusual for an export credit institution to under write a number of cases every year where the contract value or the size of the exposure involved in each case is considerably larger than the agency’s total premium income for the year. In the past, the export credit institutions insured many projects in politically difficult markets, where the risks were perceived as being very high or, at best, impossible to predict. These uncertainties were not solved by a host government guarantee in many of these
cases. Also the absence of any kind of reinsurance market meant that each case represented a large block of exposure, which could remain on the institution’s books many years.

When the export credit agency is in a OECD (organisation for economic cooperation and development) country, the credit terms that it supports must comply (if more than two years credit is involved) with the terms of the OECD arrangement (Formally, the arrangement on Guidelines for official supported export credits). Rules under OECD arrangement non apply to the maximum length of credit, the minimum rate of interest, the minimum down payment, the starting point of credit, and the repayment profile. In addition, and of great importance, beginning in 1999 rules also apply to minimum premium rates for political risks.

Export credit institutions normally underwrite both political and commercial risks. The key concern in a number of areas is the ability of the buyer (or the borrower in a buyer credit arrangement) to fulfill its contractual obligations. Thus, timely and accurate information about the buyer is vital to the underwriter. This includes status and financial information, supported by the audited accounts and, preferably, details of a track record. Such information is needed not just for private buyers but also for public buyers that are wholly or in part Government owned but can not commit the full faith and credit of their Government. Unless the Government in the buying country will stand behind and be fully and formally responsible for a company’s debt (which is now rather unusual), underwriters need the same kind of information on public (but non sovereign) buyers and banks that they seek for a private company.

If the information is satisfactory, the underwriter will accept the buyer for a specified sum and specified terms (e.g. $1,00,000 and six months’ credit on an open account basis). However, if the underwriter is not satisfied that the information available provides a prudent basis for insuring credit, there are a range of possibilities:

The under writer can seek further and/or more up to date information.
The underwriter can seek to reduce some of the risk by declining open account business and stipulating that payment be made by means of a letter of credit or by bills of exchange or promissory notes; the underwriter can seek a guarantee of payment from some acceptable third party, for example, a shareholder or the parent company of the buyer or a bank; the underwriter can offer cover at a reduced level (e.g. a credit limit of $30,000, where $1,00,000 was sought).

Many export credit institutions have suffered severe consequences from the international debt crises of the 1980s. In some years they paid claims significantly in excess of their premium income, and most of them – at least with respect to their medium and long term credit activities – exhausted their reserves and began to accumulate deficits. In addition, in recent years the trend has been toward forgiveness of country’s external debt, in the form of Paris Club rescheduling for low income countries. For this and other reasons, the recoverability of some claims that export credit agencies have paid has worsened or disappeared. And this has had an impact on their balance sheet.

There is also now the discipline provided by the WTO Agreement on subsidies and countervailing measures, which requires export credit agencies to break even over the long run. Export credit agencies may be subject to action in the WTO if they do not conform to these rules.

In the past, export credit agencies tended to be national, and so competition in the export business was between countries. However, in the area of short term export credit the role of government is being reviewed in many countries, and competition is increasingly between insurers, and thus between export credit agencies.

Project financing present a whole new range of challenges and problems, not only for export credit institutions and banks, but also for exporters, contractors and investors. One key question is whether it really makes sense for borrowers, host Governments; lenders, investors and those who insure them to finance large numbers of infrastructure and other projects in foreign currency. Most of these projects, after all, generate little if any
foreign exchange to repay the debt incurred. There surely be much greater emphasis on encouraging the local financing (or at least the financing in local currency) of large projects that do not earn foreign currency. The international financial institutions are encouraging more and more governments to privatise and decentralize and to disengage from industrial and commercial activities. This has led to a proliferation of project financing.

Two examples may help illustrate some of the problems:

For many export credit agencies the traditional policy has been that exporters and their banks are responsible for their own documents. Thus, if a claim arises because a document is faulty or not enforceable, this is not an insured risk and the claim is not payable. If an export credit agency stipulates a particular kind of guarantee, it will normally not examine or approve the guarantee at the time it is obtained. The key stage is then the claims stage.

The issue of action or inaction by a host government giving rise to non-payment and thus to a claim is also much more difficult in project financings. This is specially true of infrastructure projects (but not restricted to them), because in such projects different agencies and levels of the host government can play so many different roles.

A third example of the blurred risks that arise in both short term and medium term business is what happens when a country experiences a foreign exchange shortage. In the past such shortages led to transfer delays and so to political risk claims. Now and in the future however, they are likely to lead to currency depreciation and to the default or insolvency of buyers who can no longer afford to purchase the foreign currency they need to repay external creditors. It is not helpful to wait for problems or claims to arise before deciding who is carrying this or that risk.

Problems can also arise if some lenders or investors - including the international financial institutions - are not prepared to accept a paripassu position (i.e. equal treatment with other lenders and investors).
Against this background, export credit agencies face certain constraints and certain problems. For example:

Expertise: Export credit agencies cannot have experts in all sectors.

Analytical capacity: Export credit agencies are limited in the number of projects they can examine at any one time. And projects whose financing takes four or five years to structure (e.g. the Hub river project in Pakistan) are a dubious model for any body or any thing.

The effect of the debt crises: Export credit agencies bear the scars of the 1980s debt crises, and many have lost substantial reserves. This has led to unprecedented level of scrunity, by legislatures and ministries of finance, in most exporting countries.

Overenthusiasm of some project sponsors and advisors: Advisors to a project may be paid on a daily basis rather than by results. Their eagerness to earn fees may clog up the system by lodging a host of impractical applications to be examined.

Coordination: Export credit agency often encounter difficulty in designing and implementing risk sharing and multisourcing arrangements (i.e. projects where suppliers and insurers in a number of countries are involved).

Lack of understanding: Export credit agencies must deal with a continuing misunderstanding on part of many – some of whom should know better – about their role. Again export credit agencies are not source of aid, nor are they sources of united finance. They are not solely or even primarily vehicles for industrial support or foreign policy.

Another difficult area is that of pre-completion risk: who takes the risks of non-completion of a project, and what is the proper role of export credit agencies in this area? This has been an area of some change in recent years. Initially, some export credit agencies did not wish to cover any risks until after projects were commissioned. Their feeling was that the project sponsors should take the pre-completion guarantees of various sorts from contractors and other suppliers. This partly reflected a view that pre-completion risks were
essentially commercial risks and thus more appropriate to the commercial banks and to contractors then to export credit institutions.

In the last chapter of the Thesis conclusions and suggestions for the improvement and strengthening of the institutions have been summed up, so as to make these Institutions a still more useful organ of economy. Having gone through the schemes of Exim bank and ECGC in providing financial cover, insurance and guarantees to the eligible exporters and importers. It is concluded that the services provided by these institutions have been satisfactory, specially among the developing countries like India. More over, the following suggestions at various stages of export credit are given below

In spite of the tremendous increase in operation of ECGC, its coverage of India’s insurable exports over the past two decades has not exceeded 20 percent. In view of the gradual shift in favour of shipments of non-traditional goods on credit terms and considerably large volume of insurable exports. Yet to be covered. Following suggestions are offered to improve the activities of the corporation:

Premium rates could be reduced considerably by resorting to “group insurance” as practiced in Japan, rationallying the premium structure by examining the probability of loss on various types of risks insured by ECGC and introducing as a further incentive a non-claim bonus schedules;

Fixation of credit limits on foreign buyers may be done away with and that these customers be grouped into “good” or “bad” as in Japan;

The corporation should take over from the exporters the responsibility of instituting legal proceedings against the defaulting importers and establish suitable machinery to certify exporters’ compliance with contract terms, including “quality”, at the pre-shipment stage;

The ECGC share of risks under financial guarantees should be increased from $66^{2/3}$ percent to 80-85 percent so as to minimize banks’ reluctance to advance credits to exporters.
Exim bank through its wide network of alliances with financial institutions, trade promotion agencies, information providers across the globe assist externally oriented Indian companies in their quest for excellence and globalisation. Services include search for overseas partners, identification of technology suppliers negotiating an alliance and consummating a joint venture.

It is also true and unfortunate that the bank of such a high profile which is particularly dealing with export-import business has barely nine branches all over the country. In twenty one years the Exim bank has opened its branches with its head quarter in Mumbai, Ahmedabad, Bangalore, Chennai, Guhai, Hyderabad, Kolkata, New Delhi, Pune as regional branches. It is a matter of great concern that a bank on which export import is dependent has such a negligible number of branches in such a large span of time since its incorporation in 1982.

It has been advised that bank should open new branches at least one in every state and Union Territory in order to provide its services to every nook and corner of the country.

Efforts should be made by the Exim bank to focus its attention to new and small exporters, who are in the process to enter into export business.

Efforts should be made towards the recoveries of the amount of loan sanctioned for long and medium term export business on the expiry of such term so that huge amount of capital could not be blocked.

Short-term loan should be provided for a resonable extent as it carries higher rate of interest and also the rate of interest should be reduced to compete other institutions.

Bank should organize orientation programmes regarding future prospects procedure and policies of export financing. Bank should continue a particular programme over a period.

Bank's income from investment made is meagre. Thus bank should avoid investing fund for less productive purposes. Bank should provide more and
more financial assistance to germs and jewelry trade which yields maximum foreign exchange for the country.

Bank’s major expenses are in the form of debt service which reduces its profitability. Thus bank should raise its paid capital for working capital requirements.

It has been observed that exporters are not aware of all the policies programmes and scheme of the Exim bank. Therefore need of the hour is that Exim bank should regularly take steps to organise seminar and publicity campaign in general and industrial areas in particular so that new and present customer would take benefits from such schemes, programmes of the bank.

Export credit is a complex commercial activity which require proper planning and management. In this field, the Exim bank of India is doing a good job in providing easy availability of money in desired quantum. An important requisite of export credit is that the money should be available at cheap rate of interest. More over, it should be risk free and procedurally convenient.

The Exim bank of India needs more strengthening of its operations particularly investment finance, credit to overseas buyers so as to enable Indian promoters to finance equity contribution in more and more joint ventures abroad and also to enable the overseas buyer to pay for capital goods imported from India. similarly, lines of credit sanctioned to overseas financial institutions, foreign governments and agencies, also need to be streamlined and liberalised to facilitate Indian exporters.

Increased attention of Exim bank is also needed in export bill discounting extending relending facility to overseas banks and direct financial assistance to Indian exporters to extend term credit to the overseas importers of Indian capital goods.
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CERTIFICATE

This is to Certify that Mr. Majid Husain has completed his thesis entitled “A Critical Analysis of Export Credit Institutions in India, under my supervision. To the best of my knowledge, the work is of original nature. It also fulfils the requirements for the submission of Ph.D. thesis at the Aligarh Muslim University, Aligarh, India.

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   (MAJID HUSAIN)
INTRODUCTION
INTRODUCTION

Indian exports were undergoing gradual transformation in favour of larger exports of capital and engineering goods. Even exports of non-traditional items were being directed to new markets in developing countries. These new export products were often backed by offers of deferred terms of payment. Adjustments may be, therefore, required in the institutional set up of export credit, insurance and guarantee facilities to meet these new demands and opportunities.

Issues And Statement of the Problem

Previously term finance was being provided by commercial banks through the refinance facility of the IDBI and sometimes even jointly with direct participation of IDBI. Similarly, the ECGC has evolved new policies in order to reduce the element of risk for the exporters and ensure financial guarantees for banks that extend credit facilities on medium/long-term basis.

Exports on deferred payment terms generally involve substantial commitments spread over a large number of years. The magnitude of these exports was likely to continue to grow enormously and the high value contracts then bagged by several enterprising units were in the neighborhood of Rs. 20-30 crore. To service these commitments over long duration required specialized institutional arrangements which were properly equipped and designed to handle term financing.

Commercial banks in India were essentially geared to providing short term finance for the traditional items of export. They had limited organizational expertise of financing deferred payment exports. The IDBI was originally designed to concentrate on financing the industrial development and even the then its export financing activity did not exceed 10 percent of its total operations. Both the commercial banks and IDBI had, therefore, made only ad hoc arrangements of term financing to meet export requirements. In addition, the normal lending resource capacity of these institutions was not only inadequate relative to increasing requirements of the export sector but was also increasingly tuned to blocking investments for shorter duration.
Multiplicity of separate institutions for credit and insurance had led to an increase in the total cost of borrowing and a proliferation of cumbersome procedures. The exporters of the emerging new lines of products should be offered service and rates of interest comparable to those prevailing for their counterparts in developed countries. They need an institutional set up which is sensitive to their requirements.

One answer was to encourage commercial banks to concentrate on short term export finance for which they are best suited, insulate the IDBI from export credit operations, and setup an Export Bank to be responsible for term finance as well as related insurance activities, the need for setting up a specialized credit–institution for providing medium and long term credits had been underlined by the JOSHI COMMITTEE. According to the committee, India lacked at the moment a specialized credit institution to which exporters could turn for assistance at workable rates of interest when they have to transact large business, especially on medium and long term basis, against tough competition. The establishment of some sort of an institution to meet the special credit needs of the exporter appeared to be essential for increasing the growth of our exports.¹ The All-India Manufacturers Organization had urged the formation of a full fledged Export-Import Bank of India, invested with adequate authority and funds for giving package clearance and looking after the financial requirements of Indian consultancy firms abroad. In a background paper issued in Calcutta on the occasion of a seminar on “prospects” of Indian exports abroad, with special reference to project exports, the AIMO said this Bank would also look after the requirements of Indian Civil Engineering construction firms abroad. It was suggested that this Bank should be set up as a independent agency of the Government of India with a minimum capital of Rs. 200 crore. The proposed Export-Import Bank would be able to borrow abroad on a large scale than hitherto and use these borrowings to promote Indian exports, said Dr. K.S. Krishna Swamy, Deputy Governor, Reserve Bank of India. Inaugurating a seminar on ‘Exim Bank’ organized by the Indian Merchants’ Chamber in Mumbai
on Sept. 2, 1980, Dr. Krishnaswamy said the Exim Bank would supplement the
domestically generated resources by borrowing in the International market, which
was not difficult. The RBI’s assistance in resources mobilization meant some sort of
“deficit financing” and the Exim Bank should be able to mobilize funds needed for
it mainly from other sources. The Exim Bank could also attempt to reduce paper
work by securing all clearances from the government and other authorities for
export purpose, including the exchange clearance handled mainly by the RBI, thus
removing many of the hurdles faced by exporters. Commercial banks would
continue to give short-term packing credit and pre-shipment credit. The Exim bank
would have regional office and offices in some important export centers, but would
depend mainly on the national network of the commercial banks to meet the
exporters needs, Dr. Krishnaswamy clarified that the Export Credit and Guarantee
Corporation (ECGC) and the Industrial Development Bank of India (IDBI) would
continue to work. It was unfair to expect the IDBI to promote domestic industrial
development and exports abroad. The lender and the insurer should not be the same
party and the ECGC would therefore not be merged in the new organization. The
country would need a 12 to 15 per cent economic growth rate, he said and added
that a higher export growth rate was necessary to maintain balance of payments
viability.

The Government’s decision to set up the bank was announced by Finance
Minister Mr. Venkataraman while presenting the budget in 1981. While announcing
the decision to set up the bank, Mr. Venkataraman had underlined the need for a
specialized institution that will become a focal point for all aspects of export credit
and which will devote concentrated attention to the needs of the exporting
community. The Exim Bank will specially concentrate on medium and long-term
financing, leaving short-term financing to the commercial banks. The proposed
institution would serve as an information centre to cater not only to Indian
entrepreneurs, but also to foreign interests to do business in India. The bank will
also undertake the financing of project exports. It was thought that the bank should have regional offices, not only in India but also abroad.

Exim Bank - wholly owned by Government of India, was established in 1982 with the objective of promoting India’s International Trade and to function as the principal financial institution for coordinating the working of institutions engaged in financing exports and imports of goods and services. Responding to the challenges of globalization of production, process accretion in private investment flows, diminishing multinationals and emergence of world class commercial banks capable of infusing large capital and undertaking risks in project and trade financing, Exim Bank has over the years transformed its operations, and re-oriented its strategies to cater not only to the financing needs of exporters and importers and helping Indian companies create export capabilities but also in supporting them in their efforts to globalize their business. Over the years, the bank has developed a unique range of financing products and services for promoting India’s International Trade. Its major operations now includes financing projects, products and service exports, building export competitiveness, import financing for exports, foreign trade guarantee programs, export and consultancy services. With a view to enlarging networking with multilateral financing projects overseas with multilateral funding institutions, its counterparts in other countries and commercial banks. Financing of research and development activities of exporting companies, equity participation in Indian ventures and finance for software product development are some of the recent initiatives of the bank to enhance export competitiveness. Exim Bank provides financial assistance to Indian companies by way of a variety of lending programs viz.,

Non-Funded –

- Bid Bonds
- Advance payment guarantee
- Performance guarantee
- Guarantee for release of retention money
- Guarantee for raising borrowings overseas
- Other guarantees
Funded –
• Pre-shipment Rupee credit
• Post-shipment Rupee credit
• Foreign currency loan
• Overseas buyer’s credit
• Lines of credit
• Loan under FREPEC program
• Refinance of export loans

Exim Bank provides financial assistance to Indian companies for export capability creation by way of a variety of lending programs, viz.,

• Lending program for export oriented units
• Production equipment finance program
• Import finance
• Export marketing finance program
• Lending program for software training institutes
• Program for financing research and development
• Program for export facilitation: Post development
• Export vendor development lending program
• Foreign currency pre-shipment credit
• Working capital term loan program for exports oriented units.

Bank’s paid up capital and reserves stood at Rs. 6500 million and Rs. 13171 million respectively as at the end of March 2003. Exim Bank’s borrowings from Government of India stood at Rs. 107 million as at the end of March 2003. Foreign currency borrowings by the bank were Rs. 15400 million while deposits mobilized amounted to Rs. 8991 million. Assets of Exim bank as on March 31, 2003 aggregated Rs. 82733 million including loans and advances of Rs. 66102 million and investments Rs. 7762 million. During 2002-03, Exim Bank’s total income grew by 17 percent to Rs. 7995 million. Income by way of interest at Rs. 6930 million formed 87 percent of the total income. Following withdrawal of Tax exemption status of Exim Bank with effect from April 1, 2002 Bank paid an advance tax of Rs. 620 million during the year resulting in profit after tax of Rs. 2066 million. During the year bank paid dividend of Rs. 450 million (Rs. 420 million in previous year) to the Government.2

Export Credit Guarantee Corporation: In order to encourage the country’s exports, in 1957, the Government of India introduced a scheme for credit insurance to
protect exporters against overseas credit risks: Political and commercial. However, in 1964 this was converted into Export Credit and Guarantee Corporation under the administrative control of the Ministry of Foreign Trade and Supply. However, the Corporation is being run by a Board of Directors representing the Government Industry, Trade, Banking and Insurance. The insurance is to cover commercial and political risks arising out of non-payment by foreign buyers. The following are the risks covered:

(a) Insolvency of the buyer
(b) Protracted default in making payment by the buyer
(c) Non-acceptance of goods, not caused or excused by the exporter’s actions
(d) Changes in import policies in the buyer’s country
(e) Delay in transfer of funds arising out of payment difficulties in the buyer’s country
(f) War and civil commotion in the buyer’s country.

The Corporation runs on no profit no loss basis and in respect of commercial risk. It covers up to 80 percent and in respect of political risk upto 85 percent. While availing of export finance the exporters allowed to assign to their banks the benefits of the policies. the assignments could be of (I) Individual bills (ii) export to one country and (iii) the whole policy.

The object of the present study, is to analyze the role of various export credit institutions, particularly the EXIM BANK and ECGC in meeting the vital needs of finance of export and import business in India. The study of this aspect is topical as well interesting to X-ray the widely publicized role of export credit institutions in extending credit to foreign trade and to highlight the problems faced by exporters.

The study was confined to a period of twenty years from 1982-83 to 2001-02 in case of Export Credit Guarantee Corporation (ECGC) of India and twenty one years from 1982 to 2002-2003 in case of Exim Bank of India.

**Literature Review**

An overview of the similar studies in the field of the Export credits in the development of exports with special reference to Exim Bank reveals that with the exception of a few studies and articles presented occasionally in seminars and
conference, little work has been done in this aspect of export financing. The reports, which are available on this topic, are so outdated that they can neither guide in the right direction nor be implemented. A book entitled “Export credit and credit insurance facilities in India and abroad” by Dr. (Miss) S.K. Verghese views that the availability of export credit in a country is determined by the structure of its banking system and the volume of supplies in the money market. Due to the divergence in the banking system and money market conditions, there are variations as between the institutional structure and the availability of export credits in different countries. Zuhair, Saleh ALShun (1992) in his book entitled” Export Management Strategies in Developing Economy” criticizes the Export Promotion Policy by the Government of India on the ground that it provides only short term solution to the problem knot. Pearson, S. Charles (1990) in his book entitled “The Direction of Trade Policy” opines that the Trade Policy does not move in a single direction. Arya, P. N. (1971) in his book entitled “Survey of Export Credit Facilities in India” attempts to outline some of the dramatic changes that have taken place in the Export Credit Facilities in India. Khan, R. R. (1979) in his book entitled “Export Management” gives a brief review of the Export pricing, Export Finance etc. Nadkarni, S. S. (1985) in his book entitled “Export Performance of ICICI Companies” advocated the subsidized credit both in terms of rate of Interest and period of credit extended.

Exim Bank’s occasional Paper 41 (Oct. 1995) entitled “Regional Cooperation in Export Credit and Guarantees” highlighted briefly the regional cooperation in Export Credit and Guarantees.


Exim Bank’s Occasional Paper 70 (2000) 12 entitled “Exports in India’s Growth process” concludes that the success of Export depends on economic, political and social factor and managerial consideration.

In 1991, India adopted policy of free economy. Dr. Manmohan Singh, Former Finance Minister and eminent economist, went to the floor of Parliament to announce the economic policy for free economy. The Economic survey for 1990-91 presented facts of dismal performance of Indian economy in terms of GDP, per capita income, Foreign Reserves, foreign debts, burden of Interest charges and decline in the middle class in come. There was steep decline in the economic performance on all counts.13

Dr. P. Chidambaran, former Finance Minister, presenting Economic Survey to Parliament in the Budget Session, 1994-95, has gone a step further in relaxing government controls on Industries and Imports. The Report underlined the need for an environment friendly to Exporters.14

Existing literature suggest that economic liberalization should allow growth, higher per capita Income, Larger foreign Exchange, upgradation of Technology for modernization of Indian Industries and Increase in Exports.

Some academicians have suggested remedies that are Contradictory to each other. For instance it is suggested more often than not to resort to cheap bank credit, relaxation in Statutory reserve, frequent open market operations, rescheduling of debts and relenting to subsidies. Remedies are no better than the problems. The approaches do not make a clear statement about the main objective of correctives.

The study highlights the expectations of Exporters that managers of the economy must bother about as much as they should take care of additional income and additional cost.

Scope and Objectives of the Study

The present study relates mainly to the impact of institutional finance on the growth of foreign trade of India.

The broad objectives of the study are as follow:
(a) To assess the various services provided by the Exim bank and ECGC.
(b) To study the business environment for export credit in India after liberalization.
(c) To study the role of export credit institutions in India.
(d) To assess the performance of export credit institutions in India.
(e) To study the problems and prospects of export credit institutions.
(f) To suggest the measures to improve the working of export credit institutions.

**Hypotheses**

Keeping in view the objectives of the study, the following hypothesis are proposed to be tested in the context of International Trade of India:

(i) The requirements of finance differ in different export projects and areas.
(ii) The institutions that finance export trade have some order of preference while financing.
(iii) The most important inhabiting factor in setting up of export oriented units is the shortage of finance.
(iv) Institutional finance create an environment of investment vis-à-vis establish soundness of the project by processing it before advancing the loan.
(v) Survival of the export amidst competitions need with improved technology and more export credit.
(vi) Projects, which are in Government protection/guarantee, get easy finance at easy terms and conditions.

**Research Methodology**

A work of the nature like this requires an extensive study of the available literature but the paucity of literature is a great handicap in this respect. The non-availability of systematized data and other information pertaining to the institutions has been a major handicap for the researcher. The data that are available are many times ambiguous and scattered and thus one has to face innumerable difficulties in the compilation and comparison of data. However, the material for the present study was collected from the published as well unpublished records of the export credit institutions, Reserve Bank of India and the Central Government publications. The data about the export financing provided by the credit institutions in the country in meeting the export credit requirements of the various export sectors have been obtained from the publication of the Annual Reports of the Exim bank, ECGC and the Central Government published reports of the Ministry of Commerce and Industry, Indian Institute of Foreign Trade and National Council for Applied
Economic Research Centre New Delhi, have also been used for the said purpose. The secondary information has been used in the format that the study found suitable to draw logically sound inferences. Accuracy and authenticity of statistics has been checked on the ground of reputation of well-known national and international organizations. The secondary sources include the Research material from seminars, libraries, published reports, federation of Indian Chamber of Commerce and Industry, FICCI, World Bank and International Monetary Fund. The study is not a claim to exhaustive sources of research materials. Any handicaps in accessibility to information are not because of ignorance but for limited funds and facilities.

Thus the study has been carried on under several limitation. Still I am confident that the conclusions drawn would be fruitful and would be able to provide a useful base.

Scheme of the Chapters

The entire work has been divided into six chapters. The first chapter deals with the export credit a conceptual approach. The second chapter deals with the brief study of business environment for export credit in India since liberalization. The third chapter deals with the role of export credit Institutions in India. In fourth chapter the performance appraisal of export credit institutions in India is discussed. In the fifth chapter problems and prospects of export credit institutions has been analyzed.

In the last chapter the main findings of the study have been summed up and suggestions for further improvements have been given so as to make these institutions a still more useful organ of economy.

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EXPORT CREDIT – A CONCEPTUAL APPROACH

Introduction

In the early years of our civilization people developed the need for goods that others produce, and which those others were willing to exchange for merchandise that they needed in return, for many years this was the way goods were traded. This need for other people’s goods took on larger proportions over the decades, and merchants began travelling the world to find new commodities to exchange for or complement their own. Venice and London became famous places for such merchants, and soon very corner of the world was trading with every other. In Germany free trading cities like Hamburg, Bremen and Lubeck quickly established themselves. Holland, Italy, Portugal, Spain and Great Britain became important world trading nations and later the Orient and North Africa joined in.

Out of all this came the idea of exchanging goods for gold and precious metals, and as time went by, traders eventually accepted coins and currencies in return for goods and services, with this worldwide infrastructure. In place, many nations became accustomed to buying foreign goods and such goods became part of their every day life. From the early days the realities of economics have played an important part in international trade. This it was when buyers could not afford to pay for merchandise immediately. “Credit extensions” began to be granted, allowing the buyer to receive the goods but pay at a later date.

History tells us that wars were started because people did not always pay for merchandise received, but none of this could stop the development of a vast international trade in which credit has become a solid part of the many transactions which take place between merchants in all the countries of the world. If trade is the engine that derives the increasingly integrated global economy, export credit is the fuel that powers it. Selling overseas requires
different financial strategy compared with selling in the domestic market. Delivery takes longer period. Payment arrangements are more complex and exporter is investing his money for longer periods. Foreign buyers are also demanding longer credits with best quality, low prices and timely delivery of goods. These factors reduce cash flows, creating financial problems for exporters. Exporters have to seek financial assistance from the bank to overcome fund requirements and to become successful in export business. “Competition in world markets is not confined to price and quality alone but it extends to credit terms also”.

World leaders readily recognize that in modern times the well being of most of the world’s population depends on a flourishing international trade in goods and services. “Credit extensions” and “financial assistance” have emerged as important factors in today’s international business environment. It can now fairly be said that ‘world trade depends upon credit’. The willingness of suppliers to provide buyers with merchandise and services and wait for payment at a future date.

With the present subdued levels of international trade, increasing attentions is being paid to the ways in which exporters of various nations attempt to remain competitive in world markets and governments to assist them. Although in some countries, for example the United States and Canada, the official export credit insurance organization and provides export finance, or is involved in refinancing the provision of credit insurance and export finance are generally the functions of separate institutions. The degree of State involvement varies from country to country, but appears generally to be far more pronounced in regard to credit insurance and guarantees than export finance, though official facilities for refinancing are important in several countries.

Short term export finance is provided nearly in all countries through the commercial banking system by such methods as over drafts, terms loans or the discounting of bills. The provision of medium and long terms export credits
involves different types of financial institutions varying greatly from country to country. For short term export credit insurance purposes, most countries insist on exporters covering all their export business – the whole turnover rule – but generally subject to the concession that an acceptable spread of risks may be agreed, as is the practice in the UK, the US, Canada and Australia. For medium and long-term export contract, it is the standard practice to offer specific guarantee facilities either covering a supplier credit or a buyer credit. A notable feature in recent years has been a fairly rapid expansion in many countries of various types of highly specialized insurance cover reflecting some of the changing characteristics of international trade and of world economic conditions generally.

Increasingly export competitiveness will arise on the basis of financing package that an exporter can offer. To support estimated rise in project exports, a large financial underpinning would be necessary. Both loaning as well as guarantee facilities to exporters would be called for on an increasing scale. This suggests to the relevance of commercial banks, specialized institutions providing industrial finance, Exim Bank and ECGC working in close co-operation with each other.

**Need and Importance of Export Credit and Finance**

The need and importance of export credit can be understood from the following points:

(i) **Need and Importance of Short-term credits:** They can be divided into:

(a) **Need and importance for exporters and**

(b) **Need and importance for importers.**

The success of exports, among other things depends upon extension of export credit. Exporter should provide liberal terms of credit to the importers. An exporter fulfils his export-oriented needs by obtaining short-term credit from a bank for the purpose of: (1) procuring raw materials, (2) manufacturing and processing or making advance to other producers from whom the
exportable goods are ordered, (3) meeting expenses of packing, handling, internal transport and to meet insurance and ware-housing charges, (4) shipment and other related needs.

An importer generally need not require the short term credit, because it is usually provided by the exporter. However, an importer may require short term credit in the following cases:

(1) For Payment of advance to the exporter
(2) For meeting the shipping charges, insurance etc.
(3) To pay duty in obtaining import license etc.

Long term credit is equally essential to the exporters as well as importer. Developing countries need long term credit for their economic development. A manufacturer exporter needs credit from the point of manufacturing to the sales point for various purposes:

(1) Import-export of capital goods.
(2) To provide credit facility on liberal terms to the importer
(3) To execute the exporter promotion program
(4) Establishment of new enterprise
(5) Capital investment in other countries

Role of Export Credit:

Export finance plays a crucial role in enabling exporters in accepting and efficiently executing their export order. Export credit is required for short periods of time both before and after the dispatch/shipment of an order. While the pre-shipment export finance is required as working capital for accomplishing timely production, packing and shipment of the orders, the post-shipment finance facilitates in sustaining exporters business operations while still waiting to receive payments due from foreign buyers. Commercial banking institutions have been important source of short term export credit in India.

The provision of export finance differs from the provision of finance to production oriented to domestic markets due to risks associated with export credit. Such risks include probable credit as well export hazards in various forms. The standard credit risks include situations, in which the buyer does not
pay, buyers financial insolvency where the buyers can not pay, refusal of receipt of exported goods, and/or unfair termination of the contract. Export related risks include foreign exchange risk, and country risks including the potential threat of loses due to political and economic events beyond the control of the exporter. These risks have to be considered by both the exporters as well as the credit agencies.

Export credit plays an important role in risk management and obtaining contracts for exporters. It has the potential to augment the international competitiveness of a country by leading to geographical diversification of exports and developing new markets. It is important for a country to develop and maintain an efficient system of providing export credit lest it should become a bottleneck in winning an export contract. In a way, it add to international competitive strength of exporters of a country.

**Export Credit in India:**

India does not provide direct subsidies to exporter. Instead, India relies on a wide range of indirect measures, including duty and tax concession, export finance, export insurance and guarantee, and export promotion and marketing assistance. We shall focus mainly on export credit in this study with some references to export insurance and guarantees.

Commercial banks provide export finance at a rate lower than their prime-lending rate. With progressive deregulation of interest rates, banks now have considerable flexibility to decide their deposit and lending rate structures and manage their assets and liabilities with greater efficiency. On the lending side banks are free to prescribe their own lending rates including the prime lending rate (PRL). On the deposit side, banks have been given the freedom to offer a fixed rate or a floating rate subject to the approval of their Boards.¹

Keeping in view the international practice, the scheduled commercial banks have been provided with more operational flexibility through the introduction of the Tenor Linked Prime Lending Rates (TPLRs) since April
1999. The PLR was converted into a benchmark rate with the requirement of this being a floor rate for loans above Rs. 2 lakh being relaxed. With effect from April 19, 2001 commercial banks have been allowed to lend at sub-PLR rate for loans above Rs. 2 lakh.  

The rupee export credit interest rate structure was changed with effect from May 5, 2001 by providing ceiling rates linked to the relevant PLRs of the banks. This was expected to introduce healthy competition and provide exporters a greater choice to avail of banking services in terms of interest rate, quality of service and transaction cost. The RBI effected a reduction in ceiling rate on export credit by another 1 percent point (i.e. up to 2.5 percent less than short-term PLR) across the board on September 26, 2001 which would remain valid up to September 30, 2002.

The priority sector lending is an important function of India’s commercial banks. It includes lending to agriculture, small-scale industries (SSI), transport operators, etc. Export credit is over and above priority sector. The foreign banks operating in India have to allocate a target of 32 percent of their net bank credit (NBC) to priority sector and export finance with sub-sectoral targets of 10 percent for SSI and 12 percent for exports. The proportion of gross bank credit allocated to exports has witnessed significant changes during the last two decades. It increased from less than 6 percent in the mid 1980s to over 12 percent by the mid 1990s with a downward trend toward 10.5 percent during late 1990s. The share of export credit to total exports has been about 25.2 percent during 1980-81 to 1999-2000. While it was about 24 percent in the 1980s. It increased to about 26.4 percent in the 1990 there has been a general decline in this ratio from over 29 percent. during the late 1980s to less than 24 percent during the late 1990s.

Where as short term export finance is provided by the commercial banks, the medium and long term export finance is provided by the export import bank of India and the insurance cover to Indian exporters is provided by the wholly government owned Export Credit Guarantee Corporation of India.
(ECGC). This insurance cover is against the risk of non-realization of export proceeds due to political or commercial reasons and to provide guarantees to financial institutions to facilitate the granting of credit facilities to exporters on liberal basis. It provides a range of credit risk insurance covers to exporters against loss in export of goods and services. It offers guarantees to banks and financial institutions to enable exporters obtain better facilities from them. ECGC provides guidance to exporters in export related activities as well as information on credit worthiness of overseas buyers in about 180 countries about which it maintains its own credit ratings. It also assists exporter in recovering bad debts. The ECGC is a service organization, with profit not being the sole motive. Its operation has shown surplus of income over expenditure and in each of the six years, viz. 1995-96 to 2000-2001.

Export Credit Institutions:

Although there is no agreed definition of official support, it is generally understood that it involves government-backed support for an export credit. Official support can take the form of direct credits/financing, re-financing, and interest-rate support (where the government supports a fixed interest rate for the life of the credit). Aid financing (credits and grants). Export-credit insurance and guarantees. Direct credits/financing (where the loan is extended by the Government of the exporter), refinancing and interest rate support are referred to as “official financing support”.

The institutions which undertake these official activities for or on behalf of governments are export Credit Agency (ECAs). There are many different types of ECA: they can for instance, be government departments, or government or commercial institutions administering an account for or on behalf of government, separate from the commercial business of the institution. But our study would encompass the functioning of export credit institutions, i.e. Exim Bank and ECGC, which are established exclusively for the purpose of providing export credit, insurance and guarantee to the exporters and importers.
Credit and Credit Policy – A Review

‘Credit is a present right to a future payment’. Credit may also be defined in terms of its functions. As a medium of exchange it can be referred to as ‘future money’ as such, it provides a time element in commercial transaction that makes it – for buyers to satisfy their needs despite the lack of ready cash. Credit means the right to receive payments at some future time. According to David Kinley. “By credit we mean the power which one person has to induce another to put economic goods of his disposal for time on promise of future payment. Credit is thus an attribute of power of the borrower. According to R.P. Kent, “Credit may be defined as the right to receive payment or the obligation to make payment on demand at some future time in account of the immediate transfer of goods”.

The main elements of credit are: the element of trust, the element of capital and assets, the element of duration of credit. When the goods exported by the exporter on the basis of promise by the importer that the payment of goods imported will be made after a certain agreed period of time, it is known as the goods sold on the basis of export credit. Under the scope of export credit. The credit facilities and its liberal terms are included. According to Dr. Pratt, the determination of a credit policy be more important than any other element of an Export Policy. The reason for this is that the credit policy, which an exporter adopts, may determine such matters as – sales volume, the type of sales organization, pricing policy and product policy.

(a) Export Credit

An export credit is an insurance, guarantee or financing arrangement which allows a foreign buyer of Exported goods and/or services to defer payment over a period of time.

Export credit in India is considered to be costly. Export credit agencies all over the world enjoy support by way of interest subsidy so that they can promote national exports. The objective is to neutralize competition between an
exporter arranging for an export credit to be offered to its foreign customer land a government sponsored competitor from another country capable of offering an export credit at better than market conditions. The current is to offer export credit at Consensus Commercial Interest Reference Rate (CIRR) as determined by the OECD (Organization for Economic Co-operation and Development), which comprises 29 member countries mostly from the developed world. The arrangement on guidelines for officially supported Export Credits stipulates that minimum interest rates shall apply to official financing support for export credits. The minimum interest rates are the relevant commercial interest reference rates (CIRRs), according to the currencies being used. A CIRR is fixed for each currency of the participants to the arrangement. CIRR is fixed for each currency of the participants to the arrangement. CIRRs are set on the 15th of each month. Among the criteria to set the CIRRs are that CIRRs should closely correspond to the rate for first-class domestic borrowers and should be based, where appropriate, on the funding cost of fixed interest rate finance over a period of no less than five years. For instance, institute de Credito Official (ICO) of Spain, Natexis Banque of France, Export Finance & Insurance Corporation (EFIC) of Australia, KFW of Germany, Exim Bank of the US, Japan Bank for International Co-operation (JBIC), and Bancomext of Mexico, provide export credits at CIRR. ECAs of most of the countries ensure that their national exports do not suffer for want of competitive credit, which is generally tied to OECDs consensus (CIRR). Interest differential/subsidy/equalization is met through Government/ECA funding in many cases as seen above. Reports indicate that in the case of China effective export credit interest rates are often lower than the CIRR Exim Bank of China is the policy bank of China and its business is completely underwritten by the Government of China. Though export subsidy in the case of credit is a prohibited subsidy, India enjoys the concession as its GDP per capita is below $1000. But these can be countervailed. However, schemes can be worked out like export finance for technological upgradation at LIBOR
rates, and export credit subsidies for items in which India has not achieved export competitiveness.

(b) Form of Export Credit

(i) Rupee Pre-shipment Credit/Packing Credit

'Pre-shipment/Packing Credit' means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgment of export orders or letter of credit with the bank has been waived.

(i) Period of Advance

The period for which a packing credit advance may be given by a bank will depend upon the circumstances of the individual case, such as the time required for procuring, manufacturing or processing (where necessary) and shipping the relative goods. It is primarily for the banks to decide the period for which a packing credit advance may be given having regard to the various relevant factors so that the period is sufficient to enable the exporter to ship the goods.

- If pre-shipment advances are not adjusted by submission of export documents within 360 days from the date of advance, the advances will cease to qualify for concessive rate of interest to the exporter ab initio.
- RBI would provide refinance only for a period not exceeding 180 days.

(ii) Export Credit Against Proceeds of Cheques, Drafts, etc.

Representing Advance Payment for Exports

Where exporters receive direct remittances from abroad by means of cheques, drafts, etc. in payment for exports, banks may grant export credit at concessive interest rate to exporters of good track record till the realization of
proceeds of the cheque, draft etc. received from abroad, after satisfying themselves that it is against an export order, is as per trade practices in respect of the goods in question and is an approved method of realization of export proceeds as per extant rules.

If, pending compliance with the above conditions, an exporter has been granted accommodation at normal commercial interest rate, banks may give effect to concessive export credit rate retrospectively once the aforesaid conditions have been complied with and refund the difference to the exporter.

**Post-shipment Export Credit**

‘Post-shipment Credit’ means any loan or advance granted or any other credit provided by a bank to an exporter of goods from India from the date of extending credit after shipment of goods to the date of realization of export proceeds and includes any loan or advance granted to an exporter, in consideration of or on the security of any duty drawback allowed by the Government from time to time.

**Post-shipment advance can mainly take the form of –**

- Export bills purchased/discounted/negotiated.
- Advances against bills for collection
- Advances against duty drawback receivable from Government.

(iii) **Rupee Post-shipment Export Credit**

- In the case of demand bills, the period of advance shall be the normal transit period (NTP) as specified by FEDAI.
- In the case of usance bills, the credit can be granted for a maximum duration of 180 days from date of shipment inclusive of Normal Transit Period (NTP) and grace period, if any. However, banks should closely monitor the need for extending post-shipment credit up to the permissible period of 180 days and they should influence the exporters to realize the export proceeds within a shorter period.
• ‘Normal transit period’ means the average period normally involved from the date of negotiation/purchase/discount till the receipt of bill proceeds in the Nostro account of the bank concerned, as prescribed by FEDAI from time to time. It is not to be confused with the time taken for the arrival of goods at overseas destination.

An overdue bill:

• In the case of a demand bill, is a bill which is not paid before the expiry of the normal transit period, and
• In the case of a usance bill, is a bill which is not paid on the due date.

(iv) Post-shipment Advances against Duty Drawback Entitlements

• Banks may grant post-shipment advances to exporters against their duty drawback entitlements as provisionally certified by Customs Authorities pending final sanction and payment.
• The advance against duty drawback receivables can also be made available to exporters against export promotion copy of the shipping bill containing the EGM Number issued by the Customs Department. Where necessary, the financing bank may be made with the designated bank to transfer funds to the financing bank as and when duty drawback is credited by the Customs.
• These advances granted against duty drawback entitlements would be eligible for concessional rate of interest and refinance from RBI up to a maximum period of 90 days from the date of advance.

(v) ECGC Whole Turnover Post-shipment Guarantee Scheme

• The whole Turnover Post-shipment Guarantee Scheme of the Export Credit Guarantee Corporation Ltd. (ECGC) provides protection to banks against non-payment credit by exporters. Banks may, in the interest of export promotion, consider opting for the Whole Turnover Post-
shipment Policy. The salient features of the scheme may be obtained from ECGC.

- As the post-shipment guarantee is mainly intended to benefit the banks, the cost of premium in respect of the Whole Turnover Post-shipment Guarantee taken out by banks may be absorbed by the banks and not passed on to the exporters.

- Where the risks are covered by the ECGC, banks should not slacken their efforts towards realization of their dues against long outstanding export bills.

**Deemed Exports – Concessive Rupee Export Credit**

- Banks are permitted to extend rupee pre-shipment and post-supply rupee export credit at concessional rate of interest to parties against orders for supplies in respect of projects aided/financed by bilateral or multilateral agencies/funds (including World Bank, IDBRI, IDA), as notified from time to time by Department of Economic Affairs, Ministry of Finance under the Chapter “Deemed Exports” in Exim Policy, which are eligible for grant of normal export benefits by Government of India.

- Advances provided should be adjusted from free foreign exchange representing payments for the supplies of goods to these agencies.

- Banks may also extend rupee. Pre-shipment credit, and Post-supply credit (for a maximum period of 30 days or up to the actual date of payment by the receiver of goods, whichever is earlier).

- The post-supply advances would be treated as overdue after the period of 30 days. In cases where such overdue credits are liquidated within a period of 180 days from the national due date (i.e. before 210 days from the date of advance), the banks are required to charge, for such extended period, interest prescribed for the category ‘ECNOS’ at post-shipment stage. If the bills are not paid within the aforesaid period of 210 days,
banks should charge from the date of advance, the rate prescribed for ‘ECNOS’ – Post-shipment.

- Banks would be eligible for refinance form RBI for such rupee export credits extended both at pre-shipment and post-supply stages.

(d) Special Financial Package for Large Value Exporters – Rupee Credit Interest Rates

A special financial package has been drawn in consultation with the Government of India, for large value exports of select products, which are internationally competitive and have high value addition. The details of the financial package are furnished below:

The products eligible for export under special financial package are:

- Pharmaceuticals (including drugs, fine chemicals).
- Agro-chemicals (including inorganic and organic chemicals),
- Transport equipment (including commercial vehicles, two and three wheelers, tractors, railway wagons, locomotives),
- Cement (including glass, glassware, ceramics and refractories),
- Iron and steel (including iron & steel bars/rods and primary and semi-finished iron & steel),
- Electrical machinery (including transmission line towers, switch gear, transformers),
- Leather and leather goods,
- Textiles
- Manufacturer exporters of above products with export contracts of Rs. 100 crore and above in value terms in one year will be eligible for the special financial package.
- Validity period of the financial package will be from October 1, 2001 to September 30, 2002.
- Exporters covered under the special financial package will be extended credit at concessional rate of interest for an extended period upto 365 days at pre-shipment as well as post-shipment stages as against the maximum periods of 270 days and 180 days respectively applicable for
normal export credits. Further, the rate of interest of export credit for period beyond 270 days and upto 365 days at pre-shipment stage will be the same as for normal pre-shipment credit for period beyond 180 days and upto 270 days. Similarly, post-shipment credit will be extended for periods beyond 180 days and upto 365 at the same rate of interest as applicable for normal post-shipment credit for the period beyond 90 days and upto 180 days.

A monthly statement of credit extended at both pre and post-shipment stages under the above financial package may be forwarded to RBI, IECD.

(e) Interest on Export Credit

A ceiling rate has been prescribed for rupee export credit linked to Prime Lending Rates (PLRs) of individual banks available to their domestic borrowers. Banks have, therefore, freedom to decide the actual rates to be charged within the specified ceilings. Further, the ceiling interest rates for different time buckets under any category of export credit should be on the basis of the PLR relevant for the entire tenor of export credit.

(f) Interest Rate on Rupee Export Credit

At present, the interest rate structure for rupee export credit applicable for the period from 26.09.2001 to 31.03.2002 is as under:

(g) Interest Rate Structure on Export Credit in Foreign Currency

In respect of export credit to exporters at internationally competitive rates under the schemes of ‘Pre-shipment Credit in Foreign Currency’ (PCFC) and ‘Rediscounting of Export Bills Abroad’ (EBR), banks are permitted to fix the rates of interest with reference to ruling LIBOR, EURO LIBOR or EURIBOR, wherever applicable, as under:
### Table – 1

**Interest Rate Structure on Rupee Export Credit**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Type of Credit</th>
<th>Interest Rate @</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Pre-shipment Credit</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(from the date of advance)</td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>(a) upto 180 days</td>
<td>Not exceeding PLR minus 2.5 percentage points</td>
</tr>
<tr>
<td>(b)</td>
<td>Beyond 180 days and upto 270 days</td>
<td>Not exceeding PLR minus 0.5 percentage points</td>
</tr>
<tr>
<td>(ii)</td>
<td>Against incentives receivable from Government</td>
<td>Not exceeding PLR minus 2.5 percentage points</td>
</tr>
<tr>
<td></td>
<td>(covered by ECGC Guarantee) upto 90 days</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td><strong>Post-shipment Credit</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(from the date of advance)</td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>On demand bills for transit period (as specified by FEDAI)</td>
<td>Not exceeding PLR minus 2.5 percentage points</td>
</tr>
<tr>
<td>(ii)</td>
<td>Against usance bills^ (for total period of export bills, transit period as specified by FEDAI, and grace period, wherever applicable) +</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Upto 90 days</td>
<td>Not exceeding PLR minus .2.5 percentage points</td>
</tr>
<tr>
<td></td>
<td>(b) Beyond 90 days and upto 6 months from the date of shipment</td>
<td>Not exceeding PLR plus .0.5 percentage points</td>
</tr>
<tr>
<td></td>
<td>(iii) Against incentives receivable from Govt. (covered by ECGC Guarantee) upto 90 days</td>
<td>Not exceeding PLR minus 2.5 percentage points</td>
</tr>
<tr>
<td></td>
<td>(iv) Against undrawn balances (upto 90 days)</td>
<td>-do-</td>
</tr>
<tr>
<td></td>
<td>(v) Against retention money (for supplies portion only) payable within one year from the date of shipment (upto 90 days)</td>
<td>-do-</td>
</tr>
<tr>
<td>3.</td>
<td><strong>Deferred Credit</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Deferred credit for the period beyond 180 days</td>
<td>Free*</td>
</tr>
<tr>
<td>4.</td>
<td><strong>Export Credit Not Otherwise Specified (ECNOS)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Pre-shipment credit</td>
<td>Free*</td>
</tr>
<tr>
<td></td>
<td>(ii) Post-shipment credit</td>
<td>Free*</td>
</tr>
</tbody>
</table>

^ Interest rate for credit beyond 90 days from the date of advance has to be charged slab-wise (1-90 days and 91-180 days).
@ Since these are ceiling rates, banks would be free to charge any rate below the ceiling rates.
• Banks are free to decide the rate of interest, keeping in view the PLR and spread guidelines.

**Source:** Master Circular Rupee Export Credit,
IECD. No. 12/04.02.01/2001-02 dated 22.11.2001
IECD No. 5/04.02.01/2001-02 dated 24.09.2001
IECD No. 4/04.022.01/2001-02 dated 24.09.2001
Table – 2
Interest Rate Structure on Export Credit in Foreign Currency

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Type of Credit</th>
<th>Interest Rate @</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Pre-shipment Credit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(from the date of advance)</td>
<td></td>
</tr>
<tr>
<td>(a) upto 180 days</td>
<td>Not exceeding 1% over LIBOR/EURO LIBOR/EURIBOR</td>
<td></td>
</tr>
<tr>
<td>(b) Beyond 180 days and upto 360 days</td>
<td>Rate for initial period of 180 days prevailing at the time of extension + 2.0 percentage points i.e. (1) (a) above + 20</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Post-shipment Credit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(from the date of advance)</td>
<td></td>
</tr>
<tr>
<td>(a) On demand bills for transit period (as specified by FEDAI)</td>
<td>Not exceeding 1% over LIBOR/EURO LIBOR/EURIBOR</td>
<td></td>
</tr>
<tr>
<td>(b) Against 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>
</tr>
<tr>
<td>Upto 6 months from the date of shipment</td>
<td>Not exceeding 1% over LIBOR/EURO LIBOR/EURIBOR</td>
<td></td>
</tr>
<tr>
<td>(c) Export bills (demand or usance) realised after due date but upto date of crystallisation</td>
<td>Rate for (ii) (b) above + 2.0 percentage points</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Export Credit Not Otherwise Specified (ECNOS)</td>
<td></td>
</tr>
<tr>
<td>(i) Pre-shipment credit</td>
<td>Free*</td>
<td></td>
</tr>
<tr>
<td>(ii) Post-shipment credit</td>
<td>Free*</td>
<td></td>
</tr>
</tbody>
</table>

- Banks are free to decide the rate of interest being rupee credit rate, keeping in view the PLR and spread guidelines.

Source: Master Circular Export Credit in Foreign Currency
IECD. No. 14/04.02.01/2000-01 dated 19.04.2001
IECD No. 13/04.02.02/1999-2000 dated 17.05.2000

The various agencies involved in the provision of export credits in India are:
- Commercial Banks (short term – upto 180 days).
- Export Import Bank of India (medium and long term), and
- Export Credit Guarantee Corporation of India (ECGC).

Policies governing the provision of credit to the export sector, cost of export credit, interest subsidy payable to banks and availability and cost of refinance...
are determined by the RBI. Nationalized banks and Private and Foreign banks are required to operate with in the guidelines laid down by the RBI.

Although exports are not categorized as a priority sector, export lending is in fact encouraged through a variety of mechanisms like concessional interest rates, interest subsidies to banks, rates counting facilities and informal exhortation by RBI.

The RBI notifications stipulate the period for which concessional credit would be available, both at pre-shipment and post-shipment stages. From time to time RBI reviews the rate on export credit and modifies them in light of the country’s export performance.

(h) Monetary and Credit Policy for the Year 2001-02

Prior to the MCP statement, 2001-02, export credit was provided by prescribing specific rates of interest on pre-shipment credit and mostly as a ceiling in the case of post-shipment credit. The MCP statement, 2001-02, proposed to make interest rate on export credit by banks to be indicated as a ceiling rate in all categories including pre-shipment credit. Such ceiling rates would be linked to the prime Lending Rates (PLRs) of respective banks available to their other domestic borrowers. The ceiling rate was fixed at 1.5 per cent below the PLR in the case of pre-shipment credit up to 180 days and post-shipment credit up to 90 days. The ceiling rate was later revised to 2.5 per cent below PLR in the Mid-term Review of monetary and Credit Policy for the year 2001-02 announced in October 2001. The ceiling rate for pre-shipment credit for a period beyond 180 days as well as post-shipment 90 days but up to 180 days (from the date of shipment) would be PLR plus 0.5 per cent. Resort while wholly depending on this business. Probably only official credit agencies can play the role of being the insurer of last resort.

Though there is conflict between the twin objectives of breaking even and being the insurer of last resort. It has been suggested that the conflict is not a real one because.
- The period over which the business of official credit agencies is expected to break even is a very long one, longer than would be expected in the private market.
- Official export credit agencies do not pay taxes; and
- The shareholders of official export credit agencies (i.e. government) do not expect to receive any dividends.

However, the notion that the official export credit agencies can act as insurer of last resort while simultaneously, adhering to the WTO mandate suggests one of two alternatives. First, either it under estimates ability of the private sector to put a market price on the assessed risks or it over estimates the quality of the risks being under written. Second an insurer of last resort cannot acquire the ability, skill and experience required operating right at the margin risk business. These issues would require much more discussion over the coming years.

(i) Export Credit and WTO

Governments all over the world provide subsidies as a tool for realizing their policies. Subsidies may take various forms such as grants, tax exemptions, low interest-financing, investment and export credits. Six primary purpose based categories subsidies include (1) Export subsidies, (2) Subsidies contingent upon the domestic over imported goods, (3) industrial promotion subsidies; (4) Structural adjustment subsidised regional development subsidies and (5) research and development subsidies. Tow primary beneficiary based subsidies include (a) “nonspecific” subsidies i.e. subsidies that are not limited to specific business or industries and (b) “specific” subsidies.

Even though each government may consider its goals for providing subsidies to be legitimate. Certain types of subsidies may provide excessive protection to domestic industries and act as barriers to trade. WTO agreements, therefore, attempt to put to discipline unfair use of subsidies by the member governments. The basic principles of the legal framework for subsidies are
provided in Articles VI an XVI of the GATT 1944. There is a separate Agreement on Subsidies and Countervailing Measures (SCM). Under the WTO agreement, addressing the implementation issues relating to subsidies in general. Compared with the erstwhile GATT code of subsidies. SCM provides explicit clarity and strength to the issues to implementation and countervailing actions.

The SCM agreement provides a definition of subsidies in Article 1. Except as provided in the Agreement on Agriculture, subsidies are classified under classified into “prohibited” (Article 3), “Actionable” (Article 5, 6 and 7) and “non-actionable” (Article 8 and 9) subsidies. Prohibited subsidies are of two types (a) based upon export performance including those illustrated in Annex 1 of the SCM agreement and (b) based upon the use of domestic over imported goods. 4

Actionable subsidies, in case these cause adverse effects can be challenged either through multilateral dispute settlement mechanism or through unilateral countervailing action. Adverse effects to the interests of other members include (a) injury to domestic industry of another member, (b) nullification or impairment of benefits accruing directly or indirectly to other members under GATT 1994; and (c) Serious prejudice to the interests of another member.

Non-actionable subsidies are not “specific” to an enterprise or industry or group of enterprises or industries. These include assistance for (a) certain types of basic research; (b) development of disadvantaged regions; and (c) adoption of the existing facilities to new environmental requirements imposed by law and/or regulation resulting in greater financial burden on adapting firms.

The special and differential treatment under the WTO is the result of its attention to the special needs and problems of developing country members. Article 27 under part VIII and the SCM Agreement deals with provisions for the developing country member recognizing that subsidies may play an
important role in their economic development. It states that the prohibition of subsidies under Article 3 shall not apply to the least developed countries as defined by the United Nations. As well as to 20 developing WTO member countries (including India) whose GNP per capita was less than US $1,000 per annum. However, if a developing country member reaches export shall be gradually phased out over a period of eight years. Export competitiveness in a product exists if a developing member’s exports of that product have reached a share of 3.25 percent in world exports of that product for two consecutive calendar years. Export competitiveness shall say to exist either (a) on the notification by the developing country member having reached export competitiveness, or (b) on the basis of a computation undertaken by the secretariat if at the request of any member. In this paragraph, a product is defined as a “section heading” of the harmonized System Nomenclature.

There has been some discussion in India about issues relating to WTO compliance of India’s export incentives. The need for a review of the SCM Agreement has been pointed out due to the existence of large scale subsidization by the developed countries (Satpathy, 1999).\(^8\)

Hajra (1999) points to various major concerns expressed by Trade policy review of India by WTO (1998) regarding the inconsistencies in India’s trade policy regime Ahuja (2001) provides a detailed discussion on WTO compliance of export incentives in India. We would like to note that paragraph 128 of WTO (1998) are a brief discussion about India’s export subsides. It states that “India does not provide direct subsidies to exporters. Instead, India relies on a wide range of indirect subsidies, including duty and tax concessions, export finance, export insurance and guarantee and export promotion and market assistance.\(^10\)

For the purpose of the current study we shall limit ourselves only to the two “prohibited” export subsidies, viz. (a) Lower than market rate of interest on export credit and (b) subsidy through export credit insurance and guarantee. Commercial banks provide export financing below the market rates. The
interest rates on export credit are now linked to the prime lending (PLR) of commercial banks. Commercial banks do not receive subsidies from the government to finance these loans. Commercial banks are required to extend a minimum of 12 percent of their net credit as export credit. With regard to export finance and guarantees, the objective of the wholly government owned Export Credit Guarantee Corporation of India Limited (ECGC) is to provide exporters a range of insurance cover against the risk of non-realization of export proceeds due to political or/and commercial reasons. The ECGC also provides guarantees to financial institutions to facilitate the granting of credit facilities to exports on a liberal basis. The short-term insurance services as well as the credit guarantee business of ECGC have been found to be viable. It is in the medium and long-term export credit and guarantee business that ECGC has to meet substantial claims leading to negative results.

The prohibited subsidies mentioned above are likely to be countervailed only if these cause adverse effects to interests of the other member countries. A member may not impose a countervailing measure unless it determines that there are subsidized imports, injury to a domestic industry. And a causal link between the subsidized imports and the injury. There are detailed but transparent rules regarding the initiation and conduct of countervailing investigations. The imposition of preliminary and final measures, the use of undertakings, and the duration of measures. However, with respect to countervailing measures developing country members' exporters are entitled to more subsidization or volume of imports is small. It may take India at least a decade to reach per capita GNP level of $1000.

(j) Export credit in India: International Perspective

The decade of 1990s was of immense significance for India's economy in the context of the unilateral as well as the global changes in trade policy. Apart from the impact of various unilateral economic reforms undertaken since 1991, the economy also had to re-orient itself to the changing multilateral trade
discipline with in the newly written GATT/WTO framework. The new policy regime accords a vital role to export of goods and services in the growth process based on the perception that an open trade regime is a pre requisite for attaining higher economic growth.\(^8\)

There are various arguments in literature to justify the use of export subsidies. These include the (a) use of export subsidies by one’s competitors; (b) neutralization of import duties; (c) infant industry argument based on capital market imperfections and externalities; and (d) second best considerations related to moral hazard and adverse selection. The arguments for export subsidies thus fall into two categories; those based on welfare maximization as the objective (academic economists) and those that take export expansion or export diversification as the target (policy analysts). In the former case, the arguments often suffer from the same flaws as the arguments for protection, advanced during 1950s through 1970s to promote import substitution. In the later case, based on Latin American experience, it is far from clear export subsidies constitute the Least-cost instrument of achieving export expansion or diversification.\(^9\) In the case of India, there is no convincing case till date to support the argument that “Export credit subsidies lead to export growth”.

With import substitution policies have failed and now discredited, there has been a shift in favour of intervention on behalf of export interests. Two types of export subsidies have increasingly been used during the recent years: Export credit and insurance subsidies.

Exports credits have traditionally been supported through (a) direct loan and subsidy programs; and (b) insurance and guarantee programs.\(^{10}\)

Various attempts have been made since 1930s to control subsidised export credit terms. The Berne Union (the international union of credit and investment insurers) was established in 1934 to provide a forum for the discussion and exchange of information among member export credit insurance
agencies. Its four founding members were – France, Italy, Spain nd the United Kingdom. Over the years, the Berne Union has made non-binding recommendations on the regulation of export credit policies. However, beginning in the late 1960s, members increasingly disregarded these guidelines.11

The Berne Union now has about 50 large export credit agencies form forty countries as its members. Institutions and not their governments are members. The union works for the acceptance of sound principles of export credit and investment insurance and the exchange of information and experience. It has also adopted a series of agreements and understandings by which members undertake to abide by certain maximum ‘credit terms’ and ‘term for goods’. India was the fifteenth country to join the Berne Union in 1957 with Export Credit- Guarantee Corporation (ECGC) becoming its seventeenth member organisation.12

(k) Promotional Role of Credit in Indian Export

Till recently Indian exports have remained almost stagnant both in terms of quantum as well product mix. The role of credit in India’s foreign trade has become more pronounced due to the urgency with which the nation now views the export drive as well as the difficult control regulations of many countries and especially the predictably intense competition in world markets both for consumer and capital goods. It is generally recognized that India’s capacity to significantly increase the quantum of her exports, diversify the pattern of exports, and enlarge the range of overseas markets depends, inter alia. On her capacity and willingness to offer competitive terms of credit to foreign buyers.

Export credit facilities in India have been revised and improved from time to time and at present the overall program may be generally described as one of the most satisfactory arrangements which are operating in the world. Particularly among the developing countries. The effectiveness of these facilities is however, not fully satisfactory due to poor publicity given to the
various schemes and the adhoc revisions made in the programs from time to time.

Conclusion

In the ancient period barter system was in used. Generally it was replaced by the idea of exchanging goods for Gold and precious meals and as time went by eventually accepted coins and currencies in return for goods and services. From the early days, the realities of economics have played an important part in international trade. Thus, it was when buyers could not afford to pay for merchandise immediately, credit extensions began to be granted, allowing the buyers to receive the goods but pay at a later date.

If trade is the engine that drives the increasingly integrated global economy, export credit is the fuel that power it. World leaders readily recognize that in modern times the well being of the world’s population depends on a flourishing international trade in goods and services. Credit extensions and financial assistance have emerged as important factors in today’s international business environment. The success of exports, among other things credit. Competitions in world markets is not confined to price and quality alone but it extends to credit terms also. Export finance plays a crucial role in enabling exporters in accepting and efficiently executing their export orders.

It is important for a country to develop and maintain an efficient system become a bottle-neck in winning an export contract, in a way it adds to international competitive strength of exports of a country. The priority sector lending is an important function of India’s commercial banks. Export credit is over and above priority sector as short term export finance is provided by the commercial banks. The insurance cover to Indian exporters is provided by credit guarantee corporation of India (ECGC). There are various agencies involved in the provisions of export credit. They are for instance, Reserve Bank of India. The Export Import Bank of India, Commercial banks and the export
credit guarantee corporation of India. But our study would encompass the functioning of the two export credit institutions, i.e. Export Import Bank (Exim bank) and Export Credit Guarantee Corporation (ECGC), which are exclusively established for the purpose of extending export credit, insurance and guarantees to the exporters and importers.

An export credit is an insurance, guarantee or financing arrangement which allows a foreign buyer of exported goods and/or services to defer payment over a period of time. Export credit is required in pre-shipment and post-shipment stages. Interest differs on export credit depending upon the time and currency asked for contract.

Governments all over the world provide subsidies as a tool for realizing their policies grants, tax, exemptions. Low interest financing investment and export credits. Export credit facilities in India have been revised and improved from time to time and at present the overall program may be generally described as one of the most satisfactory arrangements which are operating in the world, particularly among the developing countries.

References:

2. Ibid, pp. 30-32


11. Ibid.

12. ECGC was established as Export Risks Insurance Corporation (ERIC) in 1957. Its name was changed to Export Credit and Guarantee Corporation limited in 1964 and then to Export Credit Guarantee Corporation of India in 1983.
CHAPTER - 2
Chapter-2

BUSINESS ENVIRONMENT FOR EXPORT CREDIT IN INDIA SINCE LIBERALIZATION

Introduction

Foundations of a systematic and scientific foreign trade policy were actually laid during the Third Five Year Plan (1961-65), which started yielding results in succeeding plans. A description of the present policies, institutions and regimes has been given in the succeeding paragraphs. Archaeological excavations of Mohanjodaro and the recent ones in Gujrat revealed that India had trade relations with many countries of the world much before 1500 BC. India’s trade balance during this period was definitely favourable, our exports excelled our imports, and we were paid in gold. India enjoyed commercial superiority in trade relations with various countries of the world. The Europeans, particularly the Dutch and the Portuguese, viewed with each other to have increasing trade relations with India. They were motivated by the desire to earn tremendous profits running into hundreds of percent. This happy state of affairs continued almost up to the period when the British assumed complete political control over the country.

During the 15th and the 16th Century AD, the Arabs and the Turks dominated trade in West Asia. The European countries tried to bypass West Asia in developing trade with India. It was in this process that Vasco-de-Gama emerged as the discoverer of a direct sea route to India via the Cape of Good Hope. In 1700AD, when India was exporting about one million pieces of cotton cloth and 120,000 pieces of silk to Britain, the industry there lamented over the serious injury to its cotton and silk textile sectors. In 1757, when the British assumed complete political control over India, the country’s foreign trade received a setback.

The British followed a dual foreign trade policy. While exports of manufactured goods from the country were discouraged, their imports into
India were encouraged. According to some economists, about two to three percent of the surplus of Indian economy were fed to British every year between 1757 and 1939. If the same level of investment had been made within the country, the economic development during the 19th Century, according to available estimates, would have been only a little less than that of the USA and the UK.

**Trade policy During British Period**

During the colonial rule, a radical change had gradually taken place in India’s trade. The salient features of the British trade policy were:

I. Foreign trade was used as an instrument for exploiting the Indian economy.

II. India was treated as an assured and cheap source of supply of raw materials to feed the manufacturing industries in Britain.

III. The country was considered a captive market for the manufactures and semi-manufactures of Britain.

IV. Major industries such as tea, coffee, rubber and jute were owned and managed by the British.

V. The colonial rulers had established the managing agency system to mobilize procurement of raw materials from the country for transportation to Britain.

VI. British interests handled foreign exchange business relating to foreign trade.

VII. The British also owned services such as shipping, freight forwarding and insurance.

In 1815, exports of textile from India to Britain were valued at £ 1.3 million. These declined to £ 100,000 by 1832. On the other hand, India’s imports of cotton textiles from Britain increased form £ 25,000 to £ 400,000 during the same period. 1850 earmarked one-fourth of the total production of textile earmarked for the Indian market. The same position held good for many other industries such as silk goods, woolens, glass and paper. However, by 1939, India had been exporting goods worth Rs. 1,790 million annually. Of this, about Rs. 950 million worth of merchandise was directed to Britain and its colonies, Britain alone accounting for Rs. 610 Million. India’s imports were of the level of about Rs. 1,630 million at the outbreak of the Second World War.
Of this, while imports amounting to Rs. 920 million were effected from Britain and its colonies, Britain alone had a share of Rs. 490 million. Thus, though India continued to enjoy a favourable trade balance during the colonial rule, about 85 percent of its exports comprised primary products such as foodstuffs, raw cotton, tea, tobacco, spices, hides and skins, and to some extent, leather manufactures, Jute manufactures and cotton manufactures. Imports from Britain and its colonies were largely consumer goods and consumer durable.

Developments of the Second World War

During the Second World War, two development of far-reaching importance took place. First Britain needed massive quantities of items comprising leatherwear, clothing, foodstuff and cement to meet the War requirements. Payments for these supplies were to be made to India in pound sterling. In this process, by 1946, India had accumulated Rs. 17,330 million worth of sterling second, to overcome foreign exchange difficulties, the British rules Introduced certain Foreign Exchange regulations and this experience stood India in good stead after it attained independence.

Goal of Self-sufficiency after Independence

The dawn of Independence vested the national Government with the gigantic task of building the country’s economy and stepping up the tempo of industrialization. This, in turn, created a need for massive inputs of a wide variety of capital goods. With a weak industrial base, these input had inevitably to be imported from developed and industrialized economies. Available foreign resources were inadequate to meet these large needs. The alternative available to the country was to rely on aid and borrowing form other countries or to generate its own foreign exchange earnings. Since foreign aid was invariably tied with “strings” and the borrowings entailed a heavy debt burden, the long term goal set by the planners was to achieve self-sufficiency. Accordingly, when the planning era started in 1951, emphasis was laid on earning foreign exchange
through exports for accelerating the pace of economic development and industrialization in the country.

The foreign trade policy during the first two five year’s plans lacked a definite direction. Shifting accent on development of heavy industry, import substitution and restrictive imports characterized the country’s policy on the international trade scene during this period. In terms of composition of India’s exports during the fifties three principal traditional items, namely cotton textiles, jute manufactures and tea accounted for nearly 54 percent of the country’s total exchange earnings. Taken together, all traditional and primary products represented about 85 percent of India’s total exports.

As the directional pattern of trade, The EFTA region accounted for a 28 percent share, followed by the ESCAP region with a 26 percent share. While North America was responsible for 19 percent of India’s exports, the European Economic Community (EEC) shared about nine percent of the merchandise. The share of Latin America and Eastern Europe in our exports was a mere five percent and one percent respectively. As to the individual markets, the UK alone had a 27 percent share in our exports, followed by the USA with a 17 percent share and Japan and Australia with a share each of four percent.

The major items of imports during the first two plans constituted machinery and transport equipment with a 30 percent share. By the end of the second Plan, other principal items, particularly textile fibers, iron and steel, cereals and cereal products, constituted nine percent, 11 percent and 16 percent share respectively in India’s total imports with the emphasis on attainment of self-sufficiency and heavy restrictions on imports, efforts to match imports and exports operated at a very low level. It came to be gradually recognized that only increased imports of technology, machinery, and essential raw materials could provide the foundations for a wider industrial sector and generate surplus export production for world markets. As a result, a significant shift in the policy took place during the Third Plan.
Various important measures were initiated during the Third Five Years Plan for giving a fillip to India’s foreign trade. These measures include liberalized imports policy, strengthening of institutional infrastructure, introduction of various promotional schemes and incentives and above all, a definite policy for India’s export and import trade.

It was during the Third Plan that an independent Ministry of Commerce, then known as the Ministry of International Trade, was created to look after the trade policy and export promotion aspects as also to provide dynamism and direction to the country’s international trade. Many national-level commercial institutions, such as the State Trading Organization, were created during this period. The institution of specialized commodity or sector-specific bodies, such as Commodity Boards and Exports Promotion Councils, was also enlarged during the Third Plan. To support the export effort of the Indian industry and trade, various service organization including inter alia, the Indian Institute of Foreign Trade, the Indian Institute of Packaging and Export Inspection Agency were also established.

To impart competitiveness to Indian products in world markets, some of the promotional schemes introduced during the Third Plan period related to:

- Cash compensatory support;
- Supply of key inputs at international prices;
- Supply of export credit at concessional rates;
- Import entitlement (now known import replenishment);
- Duty drawback; and
- Freight concessions in movement of merchandise.

A Marketing Development Fund (now known as Market Development Assistance) was created in the Ministry of Commerce to provide assistance to the exporting community in their market exploration efforts by sponsoring studies in overseas markets, help them participate in international trade fairs
and exhibitions and project the image of Indian export products through publicity abroad.

The cumulative effect of these measures was that the sluggishness, which characterized our export during the First and Second Plans, was replaced by some buoyancy during the Third Plan. The annual average exports from the country during the Third Plan amounted to Rs. 7,520 million. The annual average growth rate was four percent. Annual average imports valued at Rs. 12,410 million resulted in an adverse trade balance of Rs. 4,890 million. Exports as percentage of imports were nearly 61 percent. The landmark in the history of the country’s foreign trade policies was the devaluation of the Indian rupees on 6 June 1966, which changed the entire complexion. At the time of devaluation all export promotion measures including Cash Compensatory Support (CCS), import entitlement, duty drawback, supply of key raw material at international prices, etc., were dispensed with.

Devaluation envisaged that export products would become competitive in the international markets without incentives. India’s exports no doubt became cheaper but the devaluation failed to compensate adequately the withdrawal of incentives. With export profile mainly composed of traditional products such as tea, juts, tobacco and textiles having inelastic demand in overseas markets, the competitive edge imparted to them through devaluation proved to be quite insignificant in stepping up them thorough exchange earnings. Poor harvests in the country in two successive years, 1966-67 and 1967-68 further compounded the position necessitating heavy reliance on imports of food grains and cereals. As to the manufactured and non-traditional products, sluggish domestic production could not generate adequate surpluses for export.

On the other hand, Indian imports comprising mainly capital equipment, intermediate goods and key inputs essential for accelerating the pace of economic development and industrialization, inflexible as they were, became more expensive in dollar terms, thus creating an upturned in value of imports.
The net result was that the devaluation and withdrawal of incentives exercised adverse effect on India’s exports. The value of imports outpaced that of exports, causing a huge trade deficit. To rectify this gross imbalance in trade, recourse had to be taken to Plan holiday. The country had, therefore, a period of three annual Plans after the completion of the Third Five Year Plan.

After devaluation, exports experienced a downtrend and the growth rate itself were negative compared to the previous years of the Third Plan. Our cheaper but apparently inelastic exports to the international markets only realized lesser amount of foreign exchange while we incurred larger expenditure on the import of machinery, equipment, cereals, petroleum and petroleum products, fertilizers was further aggravated by drought conditions within the country during the two successive years after devaluation, leading to greater imports of foodstuffs. The average annual export during the three annual plans amounted to Rs. 12,470 million and the imports totaled Rs. 19,910 million. The annual average adverse trade balance during this period was of the order of Rs. 7,440 million.

Moreover, Indian trade and industry within the support provides by incentives and promotional measures had earlier acquire competitiveness in a wide range of export commodities. With the removal of export incentives, trade and industry found it difficult to compete in international markets. The overall motivation to export was also impaired substantially in the wake of growing demand in the domestic market. It was soon realized that revival of the promotional measures was necessary not only to sustain our export but also to expand it in a significant way. As a consequence, export promotion measures, which were withdrawn at the time of devaluation, were restored when the fourth plan, commenced. After the restoration of promotional measures, export once again started picking up. By this time, steps taken during the third plan to enlarge the production base had also started yielding fruitful results. Imports were further liberalized and principal adopted the fourth plan seemed to be: “import more and export more”
National Commitment to exports manifested itself for the first time in the export policy Resolution of 1970, which received the approval of parliament. This was certainly another milestone in the country’s export effort. Next only to defense and food, export activity was accorded the third place of importance in the national priorities. The resolution covered all sectors, including agriculture, horticulture, sericulture, forestry, fisheries. Minerals, textiles, electronics, chemicals and engineering industries, and called for efforts for sustaining, expanding and reorienting their export production. In this context, the policy statement also laid due emphasis on active involvement of labour, management producers and the exporting community. While seeking to mobiles support from state governments, local bodies and all sections of society vitally concerned with the export effort, the central government laid equal stress on import substitution.

Export Houses

The scheme of Export Houses introduced during the Fourth Plan was another positive step in the right direction. Export Houses were extended various incentives including import replenishment at higher rates and blanket foreign exchange permits for market exploration as well as market expansion. Linked as these facilities were with the past performance of the Export House. These contributed significantly in accelerating the pace of export growth. As against the seven percent annual growth rate envisaged by the Export Policy Resolution the actual average annual growth rate during the Fourth Plan turned out to be 12.6 percent, the maximum being 32 percent in the last year of the plan.

Simplified Procedures

Complex, complicated and time-consuming export procedures and incidental documentation formalities, which continued to act as a damper on the country’s export expansion efforts, were considerably simplified during this Plan period. The number of documents required for claiming a variety of
incentives such as cash compensatory support and duty drawback was reduced. Similarly, in getting import replenishment and advance licenses for import of key raw materials and inputs, time limits were imposed to ensure processing of the applications within a reasonable period.

**International Business Environment**

At the international level, amongst the important developments that had taken place during this period, the one of special significance to our export was the introduction of the Generalized System of Preferences (GSP) under the aegis of United Nations Conferences on Trade and Development (UNCTAD). This was aimed at promoting exports of developing countries to developed markets through preferential or duty free access of their goods on a non-reciprocal basis. India is one of the few developing countries to have taken some advantage of the opportunities thrown open by the GSP in markets of the USA, Japan, Australia, EEC and other West European countries, especially in respect of those processed or manufactured products in which it enjoyed some competitive edge over other sources of supplies comprising South Korea, Hong Kong, Brazil, Mexico and Israel. The country also forged ahead in economic and trade cooperation through numerous bilateral as well as multilateral trade agreements with a large number of countries. Commercial development programs with industrialized countries constituted important planks for increased trade exchanges.

**New Markets and Conditions of Boom**

At home, there were good harvests, which resulted in considerable squeeze in imports of food gains and cereals. International markets experienced conditions of boom and the Indian export sector was able to take advantage by realizing higher unit values for a wide variety of exportable items such as tea, jute, cotton textiles, manganese ore and iron ore. Emergence of the markets of Bangladesh, Middle East and the Gulf provided further opportunities of Trade diversification.
During the Sixth Plan a new dynamism was injected into our export effort. Developmental Policies were geared to support promotional Strategies in relation to products, projects, consultancy services and markets. The process of liberalization effected in the import policy during the earlier Plans was carried forward further. New schemes and enlargement of the scope of the on-going and existing measures such as cash compensatory support, duty drawback refund, duty exemption support provided in market exploration and market exploitation by the MDA, Free Trade Zones, 100 percent Export-Oriented Units, Joint ventures and counters trade, have been responsible for generating and diversifying export production in various export sectors. It is owing mainly to the various promotinal measures that in the midst of an otherwise depressed global economic and environment, India’s export trade has sustained its growth in the Sixth Plan.

**Policy Conceptualization**

The government is keen to provide direction and new dynamism to the country’s foreign trade. This keenness manifests itself in the setting up of a Cabinet Committee on Export under the chairmanship of the prime Minister in June 1986 to expedite decisions on important policy matters relating to international trade. Similarly numerous working groups, panels and task forces relating to important export sectors, and other high-powered committees were set up in the recent past. Their objectives were to review the structure of the Import and export policies, activise the role of policy instruments of export promotion, review the performance of India’s foreign trade and the promotional programs with particular reference to specific product groups and markets, and review the institutional service support to back the trade promotion strategies. In this context, salient features of the recent three high-level committees, namely the Alexander committee, the Tandon Committee and the Abid Hussain Committee deserve special mention. While some of the recommendations of these committees have been accepted and acted upon by the government, the remaining ones are engaging its attention.
Committee on Import-Export Policies and Procedures

[Alexander Committee, January 1978]

The Alexander Committee covered various aspects, including import of raw materials, spare parts and components for industrial users, import of capital goods and technology, import of consumer goods tariff policy, Export Planning, Policy for cash assistance and duty drawback, export controls, canalization policy for small-scale exporters, forms and procedures for export and import, and institutional service support including the setting up of the office of the Chief Controller of Imports and Exports. Some of the principal recommendations of this Committee were.

- Simplification of the highly complex procedures and import licensing System for raw materials, spare parts and components for industrial users;
- Retention of only two categories of items, i.e. restricted and banned, in the Import Policy;
- liberalization of imports of capital goods through expansion of OGL System in the interest of introducing a measure of efficiency in production and competitiveness in the capital goods sector,
- liberal import of technology for achieving improvement in quality of production and cost reduction;
- stability in Imports and Export Policies at least for three years, for effective planning of export production;
- regular review of tariff rates on different products in the light of their effects on development by the Bureau of Industrial Costs and Prices;
- replacement of the licensing system by tariff system in due course;
- rationalization of incentives like customs duties refund and cash compensatory support; ceiling of 40 percent of customs duties on capital goods and 100 percent for other items; CCS not to be allowed indefinitely;
- issue of replenishment licenses only for banned and canalized items and packing material; REP licenses to be made transferable;
- canalization should be restricted only to those items, which meet certain specification criteria like advantages of bulking, better service to consumers, preventing unfair trade practices, and assurance of long term supply; expansion of decanalized items and exemption to public sector canalizing agencies from licensing procedures;
Committee on Export Strategy for Eighties

(Tandon Committee, January 1980)

Recognizing that increase in export earnings is dependent on the continuous development and expansion of Export-oriented production, the committee laid emphasis on industrial policy orientation and export planning keeping in view the demand of overseas markets and improving competitive ability of the export products. Accordingly the committee recommended easy access of raw materials to exporters on qualitative and quantitative terms at international prices to ensure adequately export profitability.

The major thrust of the Tandon Committee being on export planning in the country, it is being recognized that there is scope for 100 percent Export Oriented Units (EOUs) as a medium for accelerating foreign exchange earnings. The Committee felt that entrepreneurs could not be expected to build up an export trade on the basis of exclusive reliance on export market. In this context, the committee suggested that instead of limiting the concessions to only 100 percent Export Oriented Units, this system of incentives should be extended to those enterprises in which export formed only a part of the total activity. The committee was also of the view that the privileges normally available to units only in the Free Trade Zones should be made applicable to 100 percent Export-Oriented Units.

Adhocism in export being detrimental to export effort, the committee stressed the need to create adequate export surpluses even at the cost of the domestic consumer to ensure timely to the overseas consumer. To encourage
execution of timely overseas orders, the ultimate aim being export expansion on completion of a contract with no extension of letter of credit and delivery and quality being strictly according to the terms of the contract, exporters should be given an additional 10 percent of cash assistance.

The Committee had given suggestions for export development and expansion in respect of different product-groups such as engineering goods, gems and jewelry, leather and leather goods, electronics, chemical and allied products, textiles, and for creation of additional capacity wherever necessary. The capital needs of small exporters attracted the attention of the Committee, which had recommended:

(a) a special scheme and a window for small-scale industries for medium finances in the Exim Bank;
(b) franchising schemes under which larger exporters should help small-scale manufactures on whom the former rely for export procurement; and
(c) supply of credit to small exporters on softer terms.

Other recommendations include: the need to improve and modernize packaging in quality, strength and cost; streamlining of export procedures and procedural formalities; selectively approach for exports with harmonization of interest of small and large exporters; review of role of states sector export enterprises; additional facilities for 100 percent Export-Oriented Units, Trading Houses and Export Houses; rationalization of cash compensatory support; increasing involvement of State Governments in country’s export efforts; and establishment of an export management department in the Ministry of Commerce.

Committee on Trade Policies

(Abid Hussain Committee, December 1984)

The committee observed that with a clear nexus between trade policies, industrial policies and other economic policies, there was need for rationalization of the policy framework in its entirety to inject a fair degree of competition supported by necessary incentives to bring about cost reduction
The policy-mix, according to this Committee, should also strike a balance between export promotion and import substitution.

The committee recognized that in the regime of export promotion policies, the compensation for disadvantages suffered by the exporter in account of domestic policies was not adequate in terms of cash compensatory support, drawback refund or the import facilities for export production. The Committee stressed the need for not only rationalization of these incentive schemes but also simplification in payment scheme as well as reduction in multiplicity of rates for CCS and Draw back.

On CCS, replenishment system and fiscal concessions, the Abid Hussain Committee recommended exemption of cash compensatory support from income tax, duty-free import facilities for manufacture exporter subject to the actual user condition and exemption of profits from exports to the extent of 50 percent from income tax.

While suggesting an Exchange Entitlement Scheme for Exporters (EESE) enabling them to use certain proportion of their foreign exchange earnings for the purpose of market exploration and market development, the committee recommended, in appropriate cases, exemption of export production from capacity licensing provision.

The Committee suggested review of the existing position on canalization in accordance with the guidelines proposed by it. It further recommended that canalization of imports should be an exception rather than the rule.

Tariffs, according to the Committee, should replace quotas over a period of time and the process of transformation should be gradual since tariffs and quotas are not perfect substitutes for one another. The Committee recommended rationalization of tariff structure for import of raw materials, spares, components, consumables and capital goods, favouring low tariffs on import of capital goods, which are not indigenously produced.
In the case of import of technology, the Committee recommended a more liberal access in most of the sectors of the Indian economy. Where it is possible to buy foreign technology without foreign equity constituting a part of the package, such imports, the Committee felt should be placed on OGL subject to appropriate ceilings on lump-sum payments and royalties for a specified maximum period. In cases where it is not possible to import technology without foreign equity participation or where the ceilings prescribed is exceeded, such imports should be selective and would need to be regulated by the FIB. These imports of technology should be permissible on guaranteed access to the continuous technology upgradation in the parent firm, provided the terms of the technology transfer are competitive and reasonable.

The Committee ruled out high level of protection for an unlimited period for import-competing industries. With a view to attaining the objective of efficient import substitution the Committee suggested de-escalation in the level of protection to ensure that infant industries grow up and become competitive over a time. In import substitution and export promotion the Committee favoured selectivity.

A complete evaluation of the entire regime of institutional support, creation of a technical cell manned by experts in each of the Export Promotion Councils with their chief executives to be appointed by the Government, shift from a system of compulsory inspection to self certification and voluntary quality control or pre-shipment inspection through and detailed examination of the existing export procedures to render them simpler, close coordination between the Ministry of Commerce and the State Government to ensure greater involvement of the latter in India’s foreign trade, and creation of a Standing Committee in each State capital for mobilizing exports from States are some of the other major recommendations of the Abid Hussain Committee.

Some of the recommendations of the Abid Hussain Committee have already been reached. The entire report of the Committee is under active consideration of the Government. The Import-Export Policy has been made
valid for a three year period to import an element of stability in the policy and to help the Indian exporters plan long term export strategies. In order to facilitate trade transactions and to minimize the adverse effect of exchange fluctuations, the exporting community is being issued imports-export passbooks.

The Government has already accepted the recommendation that import of capital goods should remain subject to the licensing procedure in cases where indigenous production constitutes either relatively small proportion of domestic demand or local production is in an infant stage or where domestic production is contemplated on the basis of perceived comparative advantage.

Another suggestion of the Committee relates to the fact that a high level of protection for import-competing industries should not be allowed for an unlimited period of time as it leads to either high costs or to monopoly profits or both, which are not in the interest of the economy in general and consumers in particular.

In the past, a number of strategies/policies for export promotion were tried in vain. Hence, recently the government had realized the vital need to liberate the economy, upgrade the technology and improve nation’s export. For the first time, a three years Export-Import Policy had been announced. The rigors of FERA and MRTP had been relaxed and several stifling controls and checks had been removed to push the growth rate of industrial production. The duties had been either abolished or slashed on several sensitive export-import commodities and products.

Salient Features of Export-Import Policy for 1985-88

The new Export-Import Policy, which would be in operations for a three-year period beginning April 1, 1985 to March 31, 1988 aims improving productivity, facilitating modernization and promoting import substitution. It was for the first time that such a medium term Exim policy had been evolved
• Capital Goods are freely importable.
• In selected sectors, second hand equipment, not more than 7 years old, can be freely imported.
• Numbers of goods canalized through state agencies reduced.
• Permission given for setting up Trading Houses with 51 percent foreign equity.
• Schemes of 100 percent Export Oriented Units (EOU’s) and Export Processing Zones (EPZ’s) liberalized: scheme exempted to agriculture, horticulture, aquaculture, poultry and animal husbandry.

**Exim Policy 1997-2002**

The features of Exim policy 1997-2002 are as under:

**Duty Exemption Scheme**

The Duty Exemption Scheme is an important instrument for boosting exports. The Scheme, as contained in Chapter 7 of Exim policy and HandBook of Procedures, 1997-2002 consists of duty Free License, Annual Advance License, Duty Entitlement Pass Book (DEPB) and duty remission Scheme.

(a) **Duty free License**

It includes

- Advance License for Physical Exports.
- Advance License for intermediate supplies.
- Advance License for Deemed Exports

(i) **Advance License for physical Exports**

Advance License is granted to Merchant Exporter or Manufacturer Exporter for the import of inputs which are physically incorporated in the exported product (Making a normal allowance of wastage) without payment of Basic Customers duty, Surcharge, Additional customs duty, Anti-Dumping duty and Safeguard duty, if any with a corresponding export obligating based on the value and quantity of export product. Such advance license is issued with positive value addition and actual user condition and non-transferable to the following categories

(a) Manufacturer Exporter:
(b) Merchant Exporter where merchant exporter agrees to the endorsement of name(s) of supporting manufacturer(s) on the relevant Duty Exemption Entitlement Certificate (DEEC).

(ii) **Advance License for Intermediate Supplies:**

An advance intermediate license is granted to manufacturer exporters for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter/deemed exporters holding another advance license.

(iii) **Advance License for Deemed Exports**

The Advance License for deemed exports is granted to the main contractor for the import of inputs required in the manufacture of goods supplied to EOUs/EPZs/SEZs/STPs/EHTPs, supply of capital goods to holders of license under Export Promotion of Capital Goods (EPCG) Scheme, supply of goods to project financed by multilateral or bilateral agencies/funds as notified by the Department of Economic Affairs Under International competitive Bidding, supply of Capital Goods including in un-assembled, disassembled conditions as well as plants, Machinery Accessories, tools, dies and such goods which are used for installation purposes and spares to the extent of 10 percent of FOR value for fertilizer plants, supplies of goods to any project of purposes in respect of which Ministry of finance by a notification, permits the import of such goods at zero customs duty coupled with the extension of benefits under deemed exports provisions, supply of goods to power and Refineries, Coal, hydrocarbons, rail, road, port, civil aviation, bridge and other infrastructure projects provided minimum specific investment is Rs. 100 crore of more and supply of marine freight containers by EOU provided containers are exported out of India within 6 months, supply to projects funded by UN Agencies.

Advance License for deemed exports could also be availed by the sub-contractor of the main contractor in respect of certain specified categories of such projects. Such license is also granted for supplies made to United Nations of other multilateral agencies and paid for in foreign exchange.
(b) Duty free Replenishment Certificate (DFRC)

Duty Free Replenishment Certificate is issued to a merchant-exporter or manufacture-exporter for the import of inputs in the manufacture of goods without payment of Basic Customs duty, Surcharge and Special Additional duty. However, such inputs shall be subject to the payment of additional customs duty equal to the Excise Duty at the time of import.

DFRC will be issued in respect of products covered under the notified Standard Input and Output Norms (SION). Such license shall be freely transferable.

(c) Annual Advance License

Manufacture exporter with export performance of Rs.1 crore in the preceding year and registered with central excise authorities, except for products which are not excisable for which no such registration is required, shall be entitled for annual Advance license up to 125 percent of the Average FOB value of exports in the proceeding licensing year. Export House, trading House, Star Trading Houses holding the certificate, as merchant exporter where they agree to the endorsement of the name (s) of the supporting Manufacture (s) on the relevant annual advance license shall also be entitled for the annual advance licence.\(^\text{10}\)

The Annual Advance license and/or the material imported thereunder shall not be transferable even after completion of export obligation. Imports against these licenses shall be exempted from payment of basic Custom Duty, Surcharge, Additional custom duty, Anti dumping Duty and Safeguard Duty, if any.

(d) Duty Entitlement Pass Book (DEPB) Scheme

Duty entitlement Pass Book Scheme is to neutralize the incidence of Basic Custom duty and surcharge on the import content of export product. The neutralization shall be provided by way of grant of duty credit against the export product. This scheme is issued on post export basis. Under the DEPB,
an exporter may apply for credit, as a specified percentage of FOB 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 way of public notice issued in this behalf, for import of raw material, intermediates, components, parts, packaging material, etc.  

Export Oriented Units (EOUs) and Export Processing Zones (EPZs)/EHTH and STP

Since 1981, the government introduced a complementary plan of EPZ scheme for promoting export units (Making export of their cent percent production). This scheme offers a wider source of raw materials, hinterland facilities, availability of technology, skill, existence of industrial base and the need for a larger area of land for the projects. In the previous Exim Policy (1997-2002), agriculture exports have been given double weightage while deciding the efficiency of export houses and trading houses.

The government has liberalized the scheme for Export Oriented Units and Export Processing Zones, agriculture, horticulture, poultry, fisheries and dairying be included in export Oriented Units. Export Processing Zones units have also been allowed to export through Trading and Start Trading houses and can have equipments on lease. These units have been allowed 100 percent participation in foreign equities  

Export House, Trading House, Star Trading Houses Super Star Trading House

These units provided some special facilities and benefits by the government on march 31st 1998, Seven Super Star Trading Houses, 46 Star Trading Houses, 431 Trading Houses and 2801 Export houses, were working in the country. Since April 1994 the government added on new category Super Star Trading houses that has the highest average annual foreign exchange
earning. These are encouraged with a view to built marketing infrastructure and 
expertise required for export promotion.

The criteria for recognition of Export House, trading House, Star trading 
House and Super Star Trading House, laid down in the Exim policy of the 
Government of India is discussed in the given table.

**Table-I**

**Criteria for Eligibility of Export House, Trading House, Star Trading 
House, Super Star Trading House during 2000-01**

<table>
<thead>
<tr>
<th>Category</th>
<th>Average FOB value during the preceding three licensing year in (Rs.)</th>
<th>FOB during the preceding licensing year in (Rs.)</th>
<th>Average NFE earning made during the preceding three licensing years in (Rs.)</th>
<th>NEF earned during the preceding licensing year in (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export House</td>
<td>15 Crores</td>
<td>22 Crores</td>
<td>12 Crores</td>
<td>18 Crores</td>
</tr>
<tr>
<td>Trading House</td>
<td>75 Crores</td>
<td>112 Crores</td>
<td>62 Crores</td>
<td>90 Crores</td>
</tr>
<tr>
<td>Star Trading House</td>
<td>375 Crores</td>
<td>560 Crores</td>
<td>312 Crores</td>
<td>450 Crores</td>
</tr>
<tr>
<td>Super Star Trading House</td>
<td>1125 Crores</td>
<td>1680 Crores</td>
<td>937 Crores</td>
<td>13505 Crores</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report, 2000-01, Ministry of Commerce and Industry, Govt., of India, New Delhi.

**Diamond, Gems and Jewelry Export Promotion Scheme**

Exporters of gems and jewelry are eligible to import their Replacement licenses and Diamond Imports License.

The exporter of gems and jewelry products are entitled for Replacement Licenses (REP) as per rates indicated in Appendix 30-A of Handbook of Procedures, Vol. 1. The Scheme is provided under chapter 8 of the Exim Policy and Handbook of procedures, (Vol.1)
Diamond Import Licenses are issued in advance, for import of rough diamonds and for export of cut and polish.

Bulk Licenses for Rough Diamonds are issued for import of rough diamonds from any source, with an obligation to supply such diamonds to the holder of valid REP/Diamond Import License, EOU/EPZ/SEZ units or re-export the same.

Diamond Dollar Account: The purchase /sale of rough or cut and polished diamonds may be carried out by the firms and companies through designated Diamond Dollar Account. This scheme shall be option.

Export Promotion of Capital Goods Scheme

The EPCG scheme has been started to permit the exporters to import capital goods on concessional import duties. Under New Export Import Policy (1997-2002) exporters of goods and services can import capital goods by paying only 10% import duty. Under EPCG such importers of capital goods have to export of four times CIF value within next five years towards creation of such facilities. So far 18 proposals for establishment of EPIPs have been sanctioned.

New capital goods including computer software system may be imported under EPCG scheme. Capital goods also include jigs, fixtures, dies and moulds, spares up to 20 percent of c.i.f. value may also be imported under the scheme subject to export obligation prescribed there in.

The scheme offer for import of capital goods at a concessional rate of custom duty of 5 percent and in such cases the importer is under obligation to export 5 times the CIF value of capital goods on NFE (Net Foreign Exchange) basis over a period of eight years from the date of issue of EPCG license.

Export Promotion Industrial Park (EPIP)

A centrally sponsored (EPIP) Scheme has been introduced in August 1994 with a view to involving the State government in the creation of infrastructural facilities for export-oriented productions. It provide for 75 percent
• Non new deposit under foreign currency (ordinary) non repatriable deposits scheme were to be accepted were to be accepted after August 20, 1994, but deposits accepted before October 1, 1994 under FCNOR scheme will get the facility of interest repatriations.

The process of easing the restrictions was formulated in August 1994, with India accepting Article VIII status of the IMF. There has been further relaxation of restrictions on current transaction in 1995-96 and 1996-97.

**Full Convertibility of Rupee in the Capital Accounts**

Developments in the capital account period 1997-98 shifted dramatically from capital flows excluding the current financing requirements leading to accretion in Reserve Bank’s foreign currency assets in the period April-August 1997 to September-February 1997-98 when exchange market disturb slightly in capital inflows and required the RBI’s mediation, sales during the period. In March 1998, there was return of stability in the exchange market and the resuming of the capital flows; accordingly, the RBI to compensates reserve losses.

Under the impact of exchange market volatility, portfolio investment by Foreign Institutional Investors (FIIs) and deposit schemes for Non-Resident Indian (NRIs) were adversely affected on the opposite side, direct foreign investment, external assistance, and external commercial remain unaffected not withstanding the separate speculative to assail on the exchange rate, although entities raising fund under borrowings commercial borrowings to disclose a preference for holding funds abroad, partly to avoid exchange risk and partly in response to inactive industrial activity.

**Present Export and Import Policy: 2002-2007**

To give a fillip to the export sector, the five years Export and Import (EXIM) Policy for the period 2002-2007 was announced by the Government of India on March 31, 2002. The Policy aims at raising the share of India’s exports to 1 per cent of the world’s exports by 2007 from the present level of 0.67 per cent. The substance, parameters, direction and strategy for the five
(limited to Rs. 10 Crores) grant to State government companies Act as section 108-A to 108-I. However these sections will now only cover acquisition and transfer of shares related to dominant undertaking. The provision related to registration under section 26 of the MRTP (Monopolistic and Restrictive Trade Practices) Act stand deleted with the issue of the ordinance and therefore now no undertaking will be required to be registered as an MRTP undertaking under this act.\textsuperscript{13}

**Fully Convertibility of Rupee in the Current Accounts and Economic Liberalization**

In 1992-93 a new system named liberalized exchange rate management system (LERMS) was introduced and since March 1, 1992 double exchange rate system was adopted. Under new system, the exporters could sell 60 percent of their foreign exchange earnings to authorized foreign exchange dealers in open market exchange rates, while 40 percent sale was made compulsory on exchange rates decided by the RBI. LERMS showed good results and encouraged by it, the government introduced in 1993-94 full convertibility of rupee in trade accounts. By adopting this step government abolished double exchange rate system for export and import and implement LERMS based on open market exchange. In budget proposals of 1994-95, the Union Finance Minister, Dr. Manmohan Singh, declared the full convertibility of rupee in the current accounts. This full convertibility, however, did not meet the norms prescribed by the IMF under Article VIII of the agreement. Articles VIII does not lay any restriction on current account transaction among the nations. On 19\textsuperscript{th} August 1994 the RBI declared certain relaxation while declaring full convertibility of Indian rupee in current accounts.

- The repatriation of income earned from investment by NRI’s and their overseas corporate bodies will be allowed in phased manner over three years period.
- Interest repatriation facility was provided on deposit of Non-Resident, Non-repatriable (NRNR). Accounts from October 1, 1994, but the principle amounts remained non repatriable.
year EXIM Policy have been provided by the recommendations of the High Level Committee for Exim Policy 2002-2007 (headed by the former Commerce Secretary Shri P.P. Prabhu) and the Medium Term Export Strategy 2002-07 (MTES) announced by the Government in January 2002. The MTES sets out a road map for the export sector in the medium term and would be co-terminus with the Tenth Five Years Plan period.


The major objectives of the EXIM Policy are as follows:

(i) to facilitate sustained growth in exports to attain a share of at least 1 per cent of global merchandise trade;

(ii) to stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services;

(iii) to enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality; and

(iv) to provide consumer with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for all domestic producers.

These objectives are sought to be met through the coordinated efforts of the State Governments and all the departments of the Government of India in general and the Ministry of Commerce and Industry and the Directorate General of Foreign Trade (DGFT) and it’s a shared vision and commitment and in the best spirit of facilitation, in order to promote trade in goods and services.

Policy Initiatives

The Exim Policy for 2002-2007 has completely removed the quantitative restrictions on exports with the exception of a few sensitive items and also given a special thrust to the promotion of agricultural, cottage and handicrafts exports. Furthermore, two new schemes have been announced in the EXIM Policy: a program called “Special Focus on Cottage Sector and
Handicrafts” and a scheme for small-scale industries coming under the industrial cluster towns.

(a) Removal of quantitative Restrictions on Exports

All Quantitative restrictions (QRs) on exports, except a few sensitive items, have been removed. Only a few items have been retained for exports through State Trading Enterprises.

(a) Agriculture

As promotion of agricultural exports is important for creating conditions for providing remunerative prices to farm products, the EXIM Policy proposes to give a boost to such exports and make a mark in international trade in agriculture with a farm-to-port approach reflected in the Agri-Export Zones (AEZs) Scheme and in the proposed Agri-Export Policy. The major initiatives regarding agriculture planned for in the Exim Policy are as follows:

(i) Export restrictions like registration and packaging requirement were removed with effect from March 31, 2002 on butter, wheat and wheat products, coarse grains, groundnut oil and cashew exports to Russia under Rupee Debt Repayment Scheme. Quantitative and packaging restrictions on wheat and its products, butter, pulses, grain and flour of barley, maize, bajra, ragi and jowar were removed with effect from March 5, 2002.

(ii) Restrictions on export of all cultivated (other than wild) varieties of seed, except jute and onion have been removed.

(iii) In order to help diversification of agriculture, transport assistance is proposed to be made available for export of fresh and processed fruits, vegetables, floriculture, poultry, dairy products and products of wheat and rice. It is also proposed to work out suitable transport assistance for export of accumulated stocks of rice and wheat from Food Corporation of India (FCI) to facilitate their liquidation.

In order to transform select rural regions as regional rural motors of export of agro and agro-based products, the scheme of setting up of AEZs was announced last year and 20 AEZs have been sanctioned so far. The Central Government would assist the State Governments in the development of necessary infrastructure, flow of credit and other facilities for promoting agro exports. AEZs would be identified by the State Governments, who would
evolve a comprehensive package of services provided by all State Government agencies, State agriculture universities and other institutions for intensive delivery in these zones. Such services, which would be managed and coordinated by State Governments, would include provision of pre/post harvest treatment and operations, plant protection, processing, packaging, storage and related research and development, etc. Units in AEZs would be entitled for all facilities available for exports of goods in terms of the provisions of the respective schemes.

(b) Cottage Sector and Handicrafts

The small-scale sector along with the cottage and handicrafts sector accounts for over 50 per cent of India’s exports. With a view to program called “Special Focus on Cottage Sector and Handicrafts” has been introduced under which the following facilities would be made available to these sectors:

(i) An amount of Rs. 5 crore has been earmarked for promoting cottage sector exports coming under Khadi and Village Industries Commission (KVIC).

(ii) Units in handicrafts sector would be eligible for funds from Market Access Initiative (MAI) Scheme. The funds would be utilized for developing the small scale sector’s Websites for virtual exhibition, among other activities.

(iii) Under the Export Promotion Capital Goods (ECGC) Scheme, units would not be required to maintain average level of exports.

(iv) Units in small scale industry/tiny sector/cottage sector/units exporting handicrafts would be entitled to the benefit of export house status on achieving lower average export performance of Rs. 5 crore during the preceding three licensing years instead of the prescribed average export performance level of Rs. 15 crore for other units.

(v) Units in handicrafts sector would be entitled to duty-free imports of specified items as embellishments up to 3 per cent of the free-on-board (f.o.b.) value of their exports.

In addition, it has been proposed that a program of identifying places with a strong propensity for economic activities with export possibilities would be taken up (like Khurja in Uttar Pradesh famous for its pottery).
(c) **Towns of Export Excellence**

A number of towns in specific geographical locations have emerged as dynamic industrial locations contributing enormously to India’s exports. With a view to maximize their export profiles and help in upgrading them to move up in the higher value markets, it has been proposed to grant recognition to industrial cluster-towns with export potential like Tirpur (for hosiery), Panipat (for woolen blankets) and Ludhiana (woolen knitwear) and provide them the following facilities:

(i) Entitlement of facility of EPCG scheme for common services providers in these areas.

(ii) Access to funds under MAI scheme for creating focused technological services.

(iii) Priority for assistance for identified critical infrastructure infrastructure gaps from the scheme on Central Assistance to States.

(iv) The units in these notified areas would be eligible for availing all the EXIM Policy schemes as per their choice.

**Modifications in the Existing Schemes**

The EXIM Policy for 2002-2007 has continued the earlier schemes like Duty Entitlement Passbook (DEPB), Export Promotion Capital Goods (EPCG), Duty Free Replenishment Certificate (DFRC), and Advance Licenses, etc. The modifications to these schemes announced in the EXIM Policy are as follows:

(a) **Assistance to States for Infra Structural Development for Exports (ASIDE)**

During the year 2000, a scheme for participation of States in the export endeavor was announced. This new Scheme “Aside” would provide funds to the States based on the twin criteria of gross exports and the rate of growth of exports from different States. Eighty per cent of the total funds would be allotted to the States based on the above criteria and the remaining twenty per cent would be utilized by the Centre for various infrastructure activities that cut across State boundaries etc. The States would utilize the funds available to them for developing complementary and critical infrastructure such as roads.
connecting production centers with the ports, setting up of Inland Container Depots and Container Freight Stations, creation of new State level export promotion industrial parks/zones, augmenting common facilities in the existing zones, augmenting participation in infrastructure projects, etc. A sum of Rs. 49.5 crore has been sanctioned for the year 2001-02 and a sum of Rs. 330 crore has been approved for the year 2002-03.

(b) Market Access Initiative (MAI)

The Market Access Initiative scheme was launched in March 2001 for undertaking marketing promotion efforts abroad on country product focus approach basis. An allocation of Rs. 14.5 crore were made in 2001-02, which has been increased to Rs. 42 crore in 2002-03.

Financial assistance would be available under the scheme to the export promotion councils, industry and trade associations and other notified eligible entities on the basis of the competitive merits of proposals received, *inter alia*, for the following purposes:

(i) Marketing studies on country-product focus approach.
(ii) Setting up of common showrooms under one roof and warehousing facility in the identified centre on the basis of marketing studies in important cities abroad.
(iii) Participation in sales promotion campaigns through international departmental stores.
(iv) Publicity campaign for launching identified products in selected markets.
(v) Participation in international trade fairs, seminars, buyers sellers meet.
(vi) Promotion of selected brands.
(vii) Transport subsidies for select agriculture products.
(viii) Registration charges for product registration abroad for pharmaceuticals, biotechnology and testing charges for engineering products.
(ix) Inland freight subsidies would be given to units located in North East, Sikkim and Jammu & Kashmir.
(x) “Business Centres” would be set up in Indian missions abroad for visiting Indian exporters/businessmen.
(c) Special Strategic Package for Status holders

A “Status holder” is an exporter recognized as “Export House/Trading House/Star Trading House/Super Star Trading House” or service provider recognized as “Service Export House/International Service Export House/International Star Service Export House” by the Director General of Foreign Trade (GDFT). As announced in the EXIM Policy, these Status holders would be eligible for the following new/special facilities:

(i) License/Certificate/Permissions and Customs clearances for both imports and exports would be on self-declaration basis.
(ii) Fixation of Input-Output norms would be done on priority.
(iii) Priority Finance would be extended for medium and long-term capital requirements as per conditions notified by Reserve Bank of India.
(iv) Status holders would be exempted from compulsory negotiation of documents through banks. The remittance, however, would continue to be received through banking channels.
(v) 100 per cent retention of foreign exchange allowed in Exchange Earners’ Foreign Currency (EEFC) account.
(vi) Enhancement in normal repatriation period from 180 days to 360 days.
(vii) The threshold for obtaining status certificate as Export House has been brought down to Rs. 5 crore for tiny, cottage, small scale, handloom, handicraft, agri-exports, services, units having ISO:9000 (series) status, exporters exporting to Latin American countries, Sub-Saharan Africa and Commonwealth of Independent States (CIS) countries.

(d) Special Economic Zones

The Special Economic Zones (SEZs) Scheme was announced on March 31, 2000 in order to promote export-production in a hassle-free atmosphere. The SEZs are specifically delineated duty free enclaves, deemed as foreign territory for the purposes of trade operations and duties and tariffs. Four existing Export Promotion Zones (EPZs) have been converted into SEZs and 13 new SEZs have been given approval. SEZ units can be set up for the manufacture of goods and rendering of services, production, processing, assembling, trading, repair, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewelry and articles thereof or in connection therewith. The following entitlements would be allowed to the SEZs:
(i) It has been proposed that Offshore Banking Units (OBUs), which would, inter alia, be exempt from CRR, SLR stipulations, would be permitted to be set up in SEZs. They would give access to SEZ units and SEZ developers to international finances at international rates.

(ii) Income tax concessions would be extended to units in SEZs.

(iii) SEZs would be exempted from Central Sales Tax (CST) to supplies from DTA.

(iv) Drawback/Duty Entitlement Pass Book (DEPB) scheme would be available to DTA suppliers.

(v) Transaction from DTA to SEZs would be treated as exports under Income Tax Act and Customs Act.

(vi) SEZ units would be permitted for relaxation from external commercial borrowing restrictions and would be allowed to make overseas investment and carry out commodity hedging.

(e) **Duty Exemption Scheme**

The Duty Exemption Scheme enables import of inputs required for export production. An Advance License is issued under Duty Exemption Scheme to allow duty free imports of inputs, which are physically incorporated in the export product. In addition, fuel, oil, energy, catalysts, etc. which are consumed in the course of their use to obtain the export product, are also allowed under the scheme, advance Licenses can be issued for physical exports, intermediate supplies and deemed exports. The changes proposed in respect of Advance License are follows:

(i) Duty Exemption Entitlement Certificate (DEEC) books is to be abolished. Redemption would be on the basis of Shipping bills and Bank Realization Certificates.

(ii) Advance License for Annual Requirement (AAL). Scheme has been withdrawn as problems were encountered in closure of AAL and the significance of scheme has considerably reduced due to dispensation of DEEC. The exporters can now avail Advance License for any value.

(iii) Mandatory spares would be allowed in the Advance License up to 10 per cent of the cost, insurance and freight (c.i.f.) value.

(e) **Duty Remission Scheme**

The Duty Remission Scheme enables post export replenishment/remission of duty on inputs used in the export product. Duty Remission Scheme consists of Duty Free Replenishment Certificate (DFRC)
Scheme and Duty Entitlement Pass Book (DEPB) Scheme. The major changes in the DFRC and DEPB Schemes are as follows:

(i) **Duty Free Replenishment Certificate (DFRC)**

DFRC permits duty free replenishment used in the export product. The DFRC is issued to a merchant-exporter or manufacturer-exporter for the import of inputs used in the manufacture of goods, without payment of basic customs duty and special additional duty. However, such inputs are subject to the payment of additional customs duty equal to the excise duty at the time of import. As per the EXIM Policy for 2002-2007, technical characteristics are to be dispensed with for audit purpose.

(ii) **Duty Entitlement Passbook (DEPB)**

The DEPB Scheme allows drawback of import charges on inputs used in the export product. The objective of the DEPB Scheme is to neutralize the incidence of customs duty on the import content of the export product. The neutralization is provided through grant of duty credit against the export product. The following changes have been announced in case of DEPB:

(i) While the value cap exemption would continue, there would be no Present Market Value (PMV) verification except of specific intelligence.

(ii) Uniform DEPB rate would be applicable for exports, whether as Completely built Units (CBU) or in Completely Knocked Down (CKD)/Semi Knocked Down (SKD) form.

(iii) There would be no mid-term reduction of DEPB rates except in exceptional circumstances.

(iv) DEPB rate for composite items would have lowest rate applicable for such constituent.

(f) **Export Promotion Capital Goods (EPCG) Scheme**

The EPCG Scheme allows import of new capital goods including CKD/SKD form thereof as well as computer software systems at 5 per cent customs duty, subject to an export obligation equivalent to 5 times c.i.f. value of capital goods to be fulfilled over a period of 8 years, which is reckoned from the date of issuance of license.
The capital goods would include jigs, fixtures, dies and moulds. Spares can also be imported under the scheme up to 20 per cent of the c.i.f. value of capital goods and furthermore, EPCG license can also be issued for import of components of such capital goods required for assembly or manufacture of capital goods by the license holder. The modifications proposed under the EPCG Scheme are as follows:

(i) EPCG licenses of Rs. 100 crore or more would have 12 year export obligation (EO) period, with 5 year moratorium period.
(ii) Supplies under Deemed Exports would be eligible for export obligation fulfillment along with deemed export benefit.
(iii) Re-fixation EO in respect of past cases of imports of second hand capital goods would be allowed under EPCG Scheme.
(iv) Board for Industrial and Financial Reconstruction (BIFR) units would be given additional period of export obligation.

(g) Export Oriented Units (EOUs)/Units in Export Processing Zones (EPZs)/Electronics Hardware Technology Parks (EHTPs)/Software Technology Parks (STPs)

Under EOU/EPZ/EHTP/STP Schemes, units undertaking to export their entire production of goods and services can be set up. Such units can be engaged in activities like manufacturing, services, repair, remaking, reconditioning, re-engineering including making of gold/ silver/ platinum jewelry and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites and can export all products except restricted and prohibited items of exports mentioned in Indian Trade Classification (Harmonized System). [ITC (HS)]. Units for generation/distribution of power can be set up in EPZs. However, trading units are not permitted to be set up under these schemes.

In order to give a boost to the hardware industry, it has been proposed to modify the Electronic Hardware Technology Park (EHTP) Scheme to enable the sector to face the zero duty regime under ITA (Information Technology
Agreement) – I and the following facilities have been extended to the units in EHTP:

(h) Net Foreign Exchange earnings as a percentage of Exports (NEEP) to be positive in 5 years only, instead of every year.

(ii) No other export obligation for EHTPs.

(iii) Supplies of ITA-1 items having zero duty in the domestic market would be eligible for counting of export obligation.

(i) **Gems and Jewelry Sector**

The concessions announced in the EXIM Policy for this sector are:

(i) In order to help India emerge as a major international centre for diamonds, customs duty on imports of rough diamonds has been reduced to zero per cent and licensing regime for rough diamonds has been abolished.

(ii) In order to give an impetus to jewelry exports, the value addition norm for export of plain jewelry has been reduced from 10 per cent to 7 per cent.

(iii) Mechanized unstudded jewelry would be allowed through Hyderabad and Jaipur airports also, in addition to Delhi, Mumbai, Kolkata, Chennai, and Bangalore.

(j) **Leather**

Duty-free imports of trimmings and embellishments up to 3 per cent of the free-on-board (f.o.b.) value which were earlier confined to leather garments have been extended to all leather products.

(k) **Textiles**

The following entitlements would be available to the textiles sector:

(i) Imports of sample fabrics permitted duty free within the 3 per cent limit for trimmings and embellishments.

(ii) 10 per cent variation in GSM (grams per square metre) would be allowed for fabrics under Advance License.

(iii) Additional items such as zip fasteners inlay cards, eyelets, rivets, eyes, toggles, Velcro tape, cord and cord stopper included in input-output norms.

(iv) Duty Entitlement Passbook (DEPB) rates for all kinds of blended fabrics would be permitted. Such blended fabrics would have the lowest rate as applicable to different constituent fabrics.
C. Other Important Measures

The EXIM Policy has announced two other important measures, viz. Action Plan under the MTES and measures undertaken for diversification of markets for India’s exports.

(a) Action Plan Under Medium Term Export Strategy (MTES)\(^{21}\)

The Medium Term Export Strategy 2002-07 (MTES) was announced by the Government in January 2002 to provide a stable and conducive environment for exporters. Major features of the MTES are product identification (220 commodities) and market identification for export focus and indicative sector-wise strategies for identified potential sectors to, *inter alia*. Remove bottlenecks and increase exports.

Out of the 220 items, the MTES has set out a list of 47 potential items in the top 100 imports of the major markets and a list of 59 items figuring in the top 100 imports of the major markets and top 100 exports of India to the major markets. Special focus would be given to these items through export promotion schemes and their progress would be monitored.

(b) Diversification of Markets

The EXIM Policy has announced several measures to tap overseas markets for India’s exports and prominent among them are:

(i) A program called Focus Africa has been launched with effect from March 31, 2002 to tap the potential for trade with the Sub-Saharan African region. The first phase of the Focus Africa program would include 7 countries, namely, Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania and Ghana. The exporters exporting to these markets would be given Export House Status on export of Rs. 5 crore.

(ii) Links with CIS countries are to be revived. In this group, Kazakhstan, Kyrgyzstan, Uzbekistan, Turmenistan, Ukraine and Azerbaijan would be given special focus in the first phase.
(iii) Focus LAC (Latin American Countries) which was launched in November 1997 in order to accelerate India’s trade with Latin American countries has been extended up to March 2003.

D. Procedural Simplification and Other Measures

In the last few years, several steps have been taken to simplify the rules and procedures and improve the speed of transactions in the DGFT with the help of information technology. As result, all the 32 offices of the DGFT have been fully computerized whereby the exporters can transact all business with the DGFT on-line and 75 per cent of the license applications are already being field and processed on-line. All the rules and notifications are available real time on the DGFT website. In an attempt to speed up the transactions, reduce physical interface, and bring about transparency in various activities related to exports, electronic data interchange would be encouraged. The procedural simplifications introduced in the EXIM Policy with a view to reducing transaction time and cost in respect of DGFT and Customs are as follows:

(a) DGFT

(i) With a view to reducing transaction time and costs in obtaining licenses/permission/certificate from the DGFT, electronic filing and electronic processing of license application has been introduced. This facility would be available to all exporters.

(ii) A new 8-digit commodity classification for imports has been adopted with effect from April 1, 2002. This classification would also be adopted by the Central Board of Excise Board of Excise and Customs (CBEC) and DGCI & shortly and this use of the common classification by DGFT and customs would eliminate the classification disputes and help reduce transaction costs and time.

(iii) Maximum fee limit for electronic application under various schemes has been reduced in all regional offices.
(b) Customs

(i) Adoption and harmonization of the 8-digit ITC (HS) code.
(ii) The percentage of physical examination of export of export cargo has been reduced to less than 10 percent, except for a few sensitive destinations.
(iii) The application for fixation of brand rate of drawback would be finalized within 15 days.

WTO and India’s Trade Policy

During April 1998, the Trade Policy Review Body TPRB of the world Trade Organization (WTO) undertook evaluation of India’s trade Policy.

The last judgement of India’s trade policy by the apex body on world trade was in 1993. However, with the agreement of the General agreement of Tariff and Trade GATT by the WTO, over and above the conventional areas of Trade Policy the recent review by the TPRB also include the “New areas” of service Trade and trade related aspects of intellectual property rights.

The TPRB has mentioned sharp tariff reductions undertaken by India between 1993-94 and 1997-98. The simple average of all tariff rates has been decreased form 71 per cent in 1993-94 to 35 per cent in 1997-98. During the same time, average tariff on import of manufactures has come down from 72 percent to 36 percent. The applied rate and the high tariff for agriculture imports during 1997-98 were 26 percent and 45 percent respectively. The overall import weighted average tariff had come down from 87 percent in 1990-91 to 20 percent in 1997-98, even after taking into account the short time duty of 5 percent.

The TPRB noted that since the last review, India had done significant progress in the reduction of non-tariff barriers as well. During the time of current review the list of freely importable goods and goods under SIL covered about 68 percent and 10 percent respectively, of the total tariff lines. Between 1995-96 and 199-98, India has a progress to the coverage of SIL by about one third. The country has proposed a six-year phase out program for shifting the remaining restricted goods to the freely importable category. The part of
imports on which state trading corporations have some monopoly has also been reduced from 27 percent during the term of the last decade to 19 percent in 1997-98.  

The TPRB felt that the process of liberalization of India’s trade policy has not made progress in certain directions. The focus of Indian trade reforms is on export orientation rather than on a more general, outward orientations. In main WTO consistent of the income tax exemption on profits from export earning has been questioned. Some members of TPRB pointed out that many exporters in India are entitled to SIL. Since these licenses are freely transferable and fetch a premium in the market they suggest that the facility many be perceived as an export subsidy.

By virtue of its WTO membership, India automatically avail of Most Favourable Nations (MFN) and National Treatment from all WTO member for its exports and this participation in this increasingly rule-based system is aimed towards ensuring more stability and predictability in the government of international trade.

As a member of the WTO, India has bound about 67 percent of its tariff Lines where bound for non-agricultural goods, with a few exception ceiling bindings of 40 per cent at ad-volaram on finished and 25 percent on goods, machinery and equipment have been undertaking. In textiles, where reduction will be achieved over a period of 10 years, India has resaved the right to revert duty levels prevailing in 1990. Under the agreement on agriculture except for a few items, India bound rates range form 100 to 300 percent and no commitments have been made regarding market access, reduction of subsidies or tariff.

The agreement on Trade Related Intellectual Property Right (TRIPs) established certain minimum standards concerning the availability. Scope, use and enforcement of Intellectual Property Rights (IPRs) and extends the basic principle of non-discrimination and transparency to these shares. A transition period up to 1st January 2000 for implementation these obligations was
available, except in the case of provisions relating to national treatment and MFN. In addition for areas of technology, where products patent is not currently available, a further period of up to 1st January 2005, is available in the line of adoption of decisions of the disputes and appellate panels by the dispute settlements body of the WTO, in the Indo-US dispute on there issues a bill to so amend the patent Act was introduced during the 1998 winter session of the Parliament has already been passed by Rajya Sabha on 23rd December 1998. These have been followed up by a presidential Ordinance on January 8th, 1998 to bring the domestic legislation in conformity with our obligations under articles 708 and 709 percent of TRIPs agreement.

Under Trade Related Investment Measures (TRIMs), India has already notified the TRIMs maintained by it. These have been eliminated by 1st January 2000, under the Information Agreement (ITA), tariff have to be brought down to zero on 95 lines during 2004 tariff lines by 2003, on 2 tariff lines 2004 and on the balance 116 tariff lines in the year 2005. India is also committed, under the Agreement of Technical Barriers to establish and administer national standards and technical regulations, keeping in view the basic precept of MFN, National Treatment and Transparency.

India’s legislation on custom valuations, the custom valuation rates, 1998, has been emended to bring it into conformity with the provisions of the WTO Agreement on implementation of Article VII of GATT 1994 and the custom valuation Agreement.

Quantitative Restrictions (QRs) on import are currently being maintained on Balance of Payment (BOP) grounds of around 2300 tariff lines at the eight-digit level. The US has filed a Dispute and Dispute Settlement Process is currently in progress in WTO.

The General Agreement on Trade in Service (GATS) has a “positive list” approach thereby allowing WTO. Members to take an obligation in the sector of their choice, India has made commitment in 33 activities. 24
India’s economic liberalization, as a matter of fact, has brought about revolution in the area of trade and investment. The policy packages introduced under economic liberalization with regard to trade and investment are mainly purported to integrate the Indian economy with the global economy.

In a nutshell, it may safely be concluded that the India’s step of making Major changes in the Exim policy 1991 accelerated economic growth. The thrust of the new economic policy has been to inject new sources of competition in order to induce greater efficiency by the liberalization of policy of export and import, foreign investment, technology, monetary and financial policy.
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### Table - 3

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**Legend:**
- G D R
- Romania
- Russia
- Other LDCs
- Africa
- Asia
- Latin America & Caribbean
- Others

@ Figures for unified Germany
@@ Refers to former USSR before 1992-93
Neg = Negligible
Included under F R G (Item 1 13 above) with the reunification of Germany
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Note: Figures for unified Germany. Neg – Negligible. Excluding members of OPEC.

@: Figures for former USSR before 1992-93.
@@: Figures for former USSR after 1992-93.

Source: Same as Table 2

Incurred under EFG (item 113 above) with the reunification of Germany.
Conclusion

Through out the world, however, there have always been, and always will be local imbalances between the supply of, and demand for, the goods and services which generated by those riches and talents; and the desire to satisfy the demand and achieve the supply is the basis for international trade.

India was accused to be one of the least open economies in the world. The Trade to income ratio of India is less than that of “China or even Russia. Compared with East Asia or Latin American Countries, India is virtually a closed economy with a share of less than one percent in the world trade. This made India neither self-reliant nor less dependent on the external world, rather made India increasingly dependent on periodic international rescue operations. In India, 1990-91 may be termed as the economic crisis year. The “Economic Advisory Council (EAC), in its report (December, 1989) mentioned that 1980s was decade of better growth performance compared to the earlier decades with GDP growth of 5.5 percent per annum. At the same time it also referred to the need of some crucial modifications in the pattern of growth and methods of financing employed. The growth performance of India during 1980 to 1990 experienced several imbalances and crises. The central government’s deficit on revenue account touched the all time high figure of 3.3 percent of GDP as against 2.6 percent of GDP in 1989-90. The deficit in the balance of payment also widened. The foreign currency reserves used to be between $ 5 and $ 2.2 billion; the reserves were only $ 896 million on January 16, 1991. The adverse effect of this economic crisis was felt during 1991-92 when GDP at constant prices grew at only 1.2 percent and GNP expanded at loss than 1 percent.

Government of India initiated a program of economic reform since July, 1991 with the objective of reducing the Central Government fiscal deficit, lessening current account deficit in the balance of payments by way of export growth and raising GDP growth to around 6 percent by the mid 1990s. The
program consisted of series of Taxation, trade, exchange rate, industry and banking.

One of the corner stones of India’s development policy has been an import – substituting industrialization strategy. It was accompanied by a heavy dose of export pessimism, which was reinforced by the poor export performance in the early years of planned development. It is well known that export profitability is a key determinant of export success. The main objective of the trade and exchange rate policies introduced since July, 1991 was to enhance export profitability and eventually eliminate the difference between domestic and export profitability.

Apart from ‘Cabinet Committee on Export’ under the Chairmanship of the Prime Minister, numerous working groups panels and task forces relating to important export sectors, and other high powered committees were set up in the recent part their objectives were to review the structure of the import and export policies, activise the role of policy instruments of export promotion, review the performance of India’s foreign trade and the promotional programs with particular reference to specific product groups and markets and review the institutional service support to back the trade promotion strategies. In this context, three high level committees, namely Alexander Committee, The Tandon Committee and the Abid Hussain Committee deserve special mention.

To give a fillip to the export sector, the 5 year Exim Policy for the period 2002-07 was announced by the Government of India on March 31, 2002. The policy aims at raising the share of India’s export to 1 percent of the world’s export by 2007 from the present level of 0.67 percent.

References:
1. Krishan, Bal, Commercial Relations between India and England (1601 to 1757), London, 1924, p. 208
2. Bhat, V.V., Aspects of Economic Change and Policy in India (1800-1960), Bombay, 1963, p. 51
3. Ibid.
4. EFTA originally included Austria, Norway, Portugal, Sweden, Finland, Denmark and the U.K. From 1 January 1973, the UK and Denmark joined EEC.

5. Afghanistan, Australia, Bangladesh, Brunei, Burma, Kampuchea, Sri Lanka, China (Mainland), Republic of China, Hong Kong, India, Indonesia, Iran, Japan, North Korea, South Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Philippines, Singapore, Thailand, North Vietnam, South Vietnam and Western Samoa.


7. Indian Economy “New polices open up new opportunities” Ministry of Information and Broadcasting, Govt. of India, New Delhi, p.5.


10. Ibid. p. 36

11. Ibid. p. 36

12. Ibid. p. 37

13. Ibid. p. 37


17. Ibid. Chapter - 4

18. Ibid. Chapter – 4

19. Ibid. Chapter – 5

20. Ibid. Chapter – 6


CHAPTER - 3
Chapter – 3
ROLE OF EXPORT CREDIT INSTITUTIONS IN INDIA

Introduction

The use of export credit as an instrument of export promotion has received due recognition in India only recently. This is partly explained by the fact that in the past exports from India mainly consisted of traditional products to traditional markets and since they were sold on short term payment terms, commercial banks were able to meet the credit requirements. However, the entry of non traditional products in India’s exports and the growing market diversification have presented special financing problems. Moreover, the growing competition in foreign markets and the sophistication introduced in the export credit systems of competing countries have made it increasingly clear that unless adequate credit facilities at reasonable rates are made available to Indian exporters, they will find it increasingly difficult to compete in foreign markets. Therefore, far-reaching measures have been introduced in recent years to enlarge the availability of export credit and reduce its effects cost.

Competition in international markets is not only confined to quality price and delivery schedules; exporters have to match liberal credit terms with these extended by rich, industrialized countries. Moreover, financing of international business operations is, for obvious reasons are more involved and hazardous than domestic business. Commercial, institutional and political risks and intricacies of payment system and transport mechanism, demand a highly informed and cautious approach to the process of decision-making in this challenging area of business management.

Terms and conditions of payment, sources, cost and duration of working capital risk of non-payment by the buyer and protection of payment against exchange rate fluctuations are some of the problems which deserve concerned attention of those engaged in international trade transactions. Economic policy
and growth strategy of India recognizes the export sector as a priority area for bank credit. The amount of advances to this sector has been growing steadily.

Serious attention has been given to financing of exports over the last two decades. Particular emphasis is being given to make available finance to export houses in adequate quantity and at concessional rates. The Reserve Bank of India and the Industrial Development agencies used to grant refinance facilities on liberal terms to commercial banks on loans granted by them to export houses. This function has now been taken over by the Exim Bank which is a statutory corporation fully owned by the Government of India. The Bank has been set up as on 1st Jan. 1982. Further, the Export Credit and Guarantee Corporation (ECGC) covers the risks of the banks in the financing of foreign trade.

Before role of Export Credit Institutions is discussed, it would be necessary to discuss some of the terms used in such Export Credit.

There are: (a) Advances Payment (b) Consignment sale (c) Documents against Payment (D/P), Document against Acceptance (D/A), (e) Letters of credit. Etc.

**Advance Payment**

Under this method, the buyer remits the value of merchandise in advance or along with the order.

**Consignment Sale**

Under these terms of payment; the exporter consigns the merchandise to his agent or representative in the foreign country and the consignee remits the proceeds after the sale of the goods.

**Documents Against Payment (D/P)**

In this case, the goods are shipped and the documents are sent through the bank to the buyer who obtains the documents only on payment. Even though the custody of the merchandise remains with the consignee until payment is received.
Documents Against Acceptance (D/P)

In this case, the buyer is enabled to take custody of the goods on the mere acceptance of the claim. In practice, the bill when presented to the buyer is accepted by the buyer by putting his signature, thereby signifying his willingness to pay the given amount on the maturity of the bills.

Letters of Credit

The above method of realizing the value of goods from the importers is used in cases where the buyer and seller are known to each other. In case they are not, the letter of credit is the most common mode of settlement in international trade. A letter of credit is a guarantee issued by the buyer’s bank in favour of the seller that payment for the goods covered by letter of credit (L/C) would be made on presentation of the stipulated documents and compliance of the terms and conditions, thereon.

Institutional Structure of Export Credit System in India

The institutional structure of India’s export credit system consists of:

1. Commercial banks,
2. Export - Import bank of India (Exim bank) and,
3. Export credit guarantee corporation (ECGC).

In the following paragraphs the role of each institution in extending export credit, insurance and guaranties is discussed in detail.

Financing Facilities by Commercial Banks

Financing facilities required by an exporter house can be broadly classified as follows:

(1) Short Term Credit

Short-term credit provided by the banks is of two types: Pre-shipment finance commonly known as packing credit, and post-shipment finance.
(a) Packing Credit

It refers to any loan to an exporter for financing the purchase, processing manufacturing or packing of goods meant for export order. Its salient features are:

(i) The credit can be given on the strength of either a letter of credit opened in favour of exporters by buyer abroad or firms export order. Exporters who do not receive the export orders in their own names such as supplies to export houses, are also eligible provided they produce a letter from the concerned export that a portion of the order has been allotted to them and that the export house does not wish to seek packing credit in respect of such portion.

(ii) Packing credit advances are essentially short term in nature and are liquidated as shipment either by negotiation of the relative shipping documents under the L/C or by discounting the bills.

(b) Post-shipment Finance:

Post-shipment credit means any loan or advance granted or any credit provided by an institution to an exporter of goods from India from the date of extending the credit after shipment of the goods to the date of realization of the export proceeds and includes any loan or advance granted to an exporter, in consideration of, or on the security of any drawback or any cash payment by way of incentives procedures for extending the post shipment finance, depends upon the terms of payment settled with the importers abroad.

In cases as discussed above bank finance extending to exporters for the period does not exceed to 180 days.

Export-Import Bank of India

(EXIM Bank)

Export import bank of India, setup in 198, for the purpose of financing, facilitating and promoting foreign trade in India, is the principal financial
institution in the country for coordinating the working of institutions engaged in financing exports and imports of goods and services with a view to promoting the country’s international trade. It takes up the promotional activities and provides counseling services to persons engaged/connected with export import business. It has taken over the export loan and guarantee portfolio of the Industrial Development Bank of India (IDBI). Exim bank corporates a wide range of financing and promotional programs. The bank finances exports of Indian machinery, manufactured goods, consultancy and technology services on deferred payment terms. Bank also seeks to co-finance projects with global and regional development agencies to assist Indian exporters in their efforts to participate in such overseas projects. The bank is involved in promotion of two-way technology transfer through the outward flow of investment in Indian joint ventures overseas foreign direct investment flow into India. Exim bank is also a partner institution with European Union and operates for facilitating promotion of joint ventures in India through with medium sized firms of the European Union.
Chart - 1

EXIM BANK

Evolving Vision

From financing facilitating and promoting India's foreign trade

To creating export capability by arranging competitive financing at various stages of the export cycle

To developing commercially viable relationships with a target set extremely oriented companies by offering them a comprehensive range of products and services, aimed at enhancing their internationalisation efforts

Source: Compiled from Annual Report of Exim Bank, Mumbai, 2003
Objectives of Exim Bank

- To translate national foreign trade policies into concrete action points.
- To provide alternate financing solutions to the Indian exporter, aiding him in his efforts to be internationally competitive.
- To develop mutually beneficial relationships with the international financial community.
- To initiate and participate in debates on issues central to India’s international trade.
- To forge close working relationships with other export development and financing agencies.
- To anticipate and absorb new developments in banking, export financing and information technology.
- To be responsive to export problems of Indian exporters and pursue policy resolutions.

Exim India offers a range of financing programs that match the menu of Exim banks of the industrialized countries. The bank provides competitive finance at various stages of the export cycle covering:

- Export Production,
- Export Marketing,
- Pre-shipment,
- Post-shipment,
- Investment abroad,
- Import of Technology,
- Export Product development

Global Networking

Exim Bank is quite unique in its global and national network of institutional and professional linkages. Bank’s five overseas offices at Washington DC, Singapore, Budapest (Hungary), Milan and Johannesburg have forged strategic institutional linkages for the Bank with:
Multilateral agencies such as World Bank, Asian Development Bank etc.
Export Credit Agencies
Trade and Investment Promotion Agencies abroad; and
Trade and Industry Associations in India.

The Bank’s extensive global network, supported by the Indian Missions abroad makes it uniquely capable of offering advisory services to Indian companies looking for market opportunities, buyer information, technology suppliers and partners for overseas and domestic joint ventures. Further it’s overseas offices enable it to garner economic and commercial intelligence on countries, companies and projects, assess credit risks, review competitive export alerts on new export opportunities.

The bank’s nine offices in India help to respond to regional developmental activities in the export sector. They identify special needs of the export business through close interaction with existing and prospective clients and suggest innovative instrument appropriate to the region’s potential. They also regularly interact with commercial/developmental/government agencies and strengthen the Bank’s policy mechanism with their critical inputs on market perceptions and the export environment.

Detailed appraisals, legal documentation, initial processing of loan disbursement requests, and monitoring of loans, including site visits, inspection of assets charged to the Bank and overall monitoring of the performance of companies are also done at the domestic offices.

Organizational Set-up

Exim Bank is managed by a Board of Directors, which has representatives from the Government, Reserve Bank of India, Export Credit Guarantee Corporation of India, a financial institution. A public sector banks and the business community. Headquartered in Mumbai, the bank has Nine other offices in India at New Delhi, Kolkata, Chennai, Mumbai, Bangalore.
Guhati, Hyderabad, Ahmedabad and Pune. Besides this it has five overseas offices at Washington DC, Singapore, Budapest, Rome and Johannesburg.

**Sources of Funds**

As at March 31, 2003, the bank had a paid up capital of Rs. 6.5 billion and net worth of Rs. 19.67 billion. It also raises funds from domestic and international markets.

**Role and Functions of Exim Bank**

- **Overseas Investment Finance** which handles a variety of financing programs for Export Oriented Units (EOUs), importers and overseas investment by Indian companies.

- **Project Finance/Trade Finance** handles the entire range of export credit services such as supplier’s credit, pre-shipment credit. Lines of credit, buyer’s credit, finance for export of projects and consultancy services, guarantees forfaiting etc.

- **Export Services Group** offers a variety of advisory and value added information services aimed at investment promotion.

- **Agri-Business Group** which has been put in place to spearhead the initiative to promote and support Agri-exports. The Group handles projects and export transactions in the agricultural sector for financing.

- Apart from these, there are support services-groups which include Planning and research. Accounts, Funds Management, Merchant Banking, Management Development and Coordination.

- Exim Bank plays a four-pronged role with regard to India’s foreign trade; those of a coordination, a source of finance, consultant and promoter.
Bank’s Major Programs

**Export Credits**
- Lines of Credit
- Buyer’s Credit
- Pre-shipment Credit
- Suppliers credit
- Finance for consultancy
- And technology services
- Cash Flow Finance for Project Export Contracts
- Refinance to commercial bank

**Services**
- Export Marketing Services
- Advisory Services
- (For projects funded by multilateral agents)
- Knowledge Building
  (Dissemination of fundings of research studies)
- Information Services
  (country market and sector studies)
- Joint Ventures Facilitation

**Promotional Programmes**
- Promotion of Indian Consultancy services through:
  - Africa Project Development Facility
  - African Management services company
  - Marketing project Development Facility
  - Southeast Europe Enterprise Development
  - China Project
  - Development Facility
  - South Asia Enterprise Development Facility
  - Private Enterprise (CIS Countries)

**Finance for Export Oriented Units**
- Project Finance
- Equipment Finance
- Working Capital Finance
  (Short and medium term)
- Overseas Investment Finance
  (Equity finance/equity participation in ventures overseas)
- Refinance to commercial bank
- Export Marketing Finance
- Finance for Export Product Development
- Finance for Research and Development
- Import Finance
- Finance for Software Training
- Institutes/Software technology parks
- Finance for Minor Ports Development

**Guarantees**
- Services
- Export Marketing Services
- Advisory Services
- (For projects funded by multilateral agents)
- Knowledge Building
  (Dissemination of fundings of research studies)
- Information Services
  (country market and sector studies)
- Joint Ventures Facilitation

Source: Compiled from Exim Bank’s Annual Report 2002-03, Mumbai, P.14.
1. Coordination Role

Exim Bank is the Coordinator of the Working Group Mechanism for clearance of Project & Services Exports and Deferred payment Exports (for amounts above a certain value—currently Rs. 200 crores). The working Group comprises Exim Bank, Government of India representatives (Ministries of Finance and Commerce), Reserve Bank of India, Export Credit Guarantee Corporation of India Ltd. And Commercial Banks who are authorized foreign exchange dealers. This institutional working group accords clearance to contracts (at the post award stage) sponsored by commercial banks and Exim Banks, and operate as a one window mechanism for clearance of term export proposals on its own, Exim Bank can now accord clearance to project export upto Rs. 200 crore in value.

2. Financial Services

Exim Bank offers a diverse range of financing services for the Indian Exporters, including a variety of Export credit facilities and finance for Export Oriented Companies.

Export Credits: the Exim bank offers the following export credit facilities, which can be availed of by INDIAN COMPANIES, COMMERCIAL BANKS AND OVERSEAS ENTITIES.

Lending to Indian Companies

1. Sellers Credit
2. Consultancy and Technical Services
3. Overseas Investment
4. Pre-shipment Finance
5. Export Oriented Units and FTZ
6. Computer Software
7. Export Marketing Fund
8. Export Product Development

Lending to Foreign Government & Companies

1. Buyers Credit
2. Lines of Credit
3. Re-lending Facility
4. Bulk Import Finance

**Lending to Indian Banks**
1. Bill Re-discounting
2. Re-Finance
3. Syndication of Risks
4. Financing Services

**For Indian Companies executing contracts overseas Pre-shipment Credit**

Where the manufacturing cycle of the export contract exceeds six months, Exim Bank pre-shipment credit facility provides access to finance at the manufacturing stage enabling exporters to purchase raw materials and other inputs. Exporters can also avail of their foreign currency Pre-shipment Credit facility to import raw material and other inputs required for export production.

**Post-shipment Credit**

At the post-shipment stage, this facility enables Indian exporters to extend term credit to importers (Overseas) of eligible goods.

**For Project Exporters**

Indian project exporters incur rupee expenditure while executing overseas project export contracts. Exim Bank’s facility helps them meet these expenses. These would generally include cost of mobilization/acquisition of raw materials, personnel and equipment, payments to be made in India to staff, Sub contractors and consultants and project related overheads in Indian Rupees.

**For Exporters of Consultancy and Technology Services**

Exim Bank offers a special credit facility to Indian exporters of consultancy and technology services. So that they can in turn, extend term credit to overseas importers. The services covered and include providing personnel for rendering technical services, transfer of technology/know-how.
preparation of project feasibility reports, maintenance and management contracts etc.

Guarantee Facilities

Indian companies can avail of these to furnish requisite guarantees to facilitate execution of export contracts and import transaction.

Forfaiting

Forfaiting is a financing mechanism that enable a company to convert credit sale to cash sale, on ‘without recourse’ basis. Exim Bank acts as a facilitator for the Indian exporter, enabling him to access the services of an overseas forfaiting agency.

For Commercial Banks

Exim Bank offers Rediscounting facility to commercial banks enabling them to rediscount export bills of their small-scale industry customers with usance not exceeding 90 days.

The bank also offer refinance of supplier’s credit, enable commercial banks to offer credit to Indian exporters of eligible goods, who in turn extend term credit over 180 days to importers overseas.

Other Overseas for Indian Companies

Indian companies executing contracts within India, but which are financed by multilateral funding agencies can avail of credit under their Finance for Deemed Exports facility, aimed at helping them meet cash flow deficits.

For Overseas Entities

Overseas buyer can avail of Buyer’s Credit from Exim Bank, for import of eligible goods from India on deferred payment terms. Besides, Exim Bank extends lines of credit to overseas financial institution, foreign governments and their agencies, enabling them to lend term loans to finance import of eligible goods from India.
Finance for Export Oriented Units (EOUs)

For the purpose of financing, an Export Oriented Company is defined as any company with a minimum export orientation of 10 percent of net sales or annual sales of Rs. 5 crore whichever is lower.

Project Finance

For setting up EOUs

Exim Bank offers term loans for setting up new projects and acquisition of assets for modernization/ upgradation/ expansion of existing units. The Bank also extends 100 percent refinance to commercial banks for term loans sanctioned by the lending bank to an EOU.

For Textiles and Jute Industries

The Bank also extends finance to eligible units in textile and jute industries under the Technology Upgradation. Fund Scheme, enabling them to upgrade their manufacturing facilities.

For Software Industry

The Bank offers a comprehensive financing/services package for the software industry. These include project/equipment finance, working capital finance, and overseas support for obtaining products/process certification, export marketing, and export product development.

To address the perceived constraint in the availability of trained software professionals. Exim Bank extends term loans to software exporters for establishment/expansion of software training institutes. Further, the Bank also facilitates setting up of Software Technological parks (STPs).

For Indian Companies involved in Port Development and related activities

Exim Bank extends term loans to Indian companies involved in construction of ports/jetties, and for acquisition of fixed assets for stevedoring, cargo handling, storage and related activities like dry docks and ship breaking.
Equipment Finance

Finance for production Equipment

To cater to the non-project related capital expenditure of EOUs. Exim Bank offers a line of credit for acquisition of imported/indigenous equipment, including equipment for packaging, pollution control etc.

For Vendors of EOUs

Under the Export Vendor Development finance facility. Exim Bank offers term loans to vendors of EOUs, to enable them to acquire plant and machinery and other assets required for increasing export capability.

Working Capital Finance

Exim Bank provides term loans (of 1 year, 1-2 years, and upto 5 years tenor) requirements.

Other facilities

Finance for R & D and Export Product Development

Exim Bank offer term loans to EOUs for development of new product/technology to satisfy domestic and international environment and standards, and to help them develop and/or commercialize new product/process applications.

Underwriting

Exim Bank extends underwriting commitment to Indian exporters, to help them raise finance from capital markets through public/rights issue of equity shares/debentures.

Export Marketing Finance

Exim Bank offers term loans to Indian companies, to aid them in their efforts to penetrate and retain their presence in overseas markets particularly in developed countries.
**Import Loans**

Exim Bank finances bulk imports of consumable inputs and canalized items undertaken by manufacturing companies.

**Guarantee Facility**

Exim Bank issues different kinds of guarantees for EOUs. These include: (a) export obligation guarantees; (b) deferred payment guarantees; (c) guarantees in favour of commercial banks/lending institutions abroad on behalf of Indian exporters.

**For Joint Ventures between India and East Asian Companies**

Under the Asian Countries Investment Partners Program. Exim Bank provides finance at various stages of a joint venture project cycle viz. Sector study, project identification, feasibility study, prototype development and technical, managerial assistance.

**Finance for Ventures Overseas**

Exim Bank offers term loans to Indian companies, both for equity investment in their ventures overseas as well as for on-lending purposes.

Besides, Exim Bank also undertakes direct equity stake in Indian Ventures Abroad, to enable Indian companies to supplement their equity with Exim Bank’s equity contribution.

**3. Advisory Services**

Exim Bank offers a diverse range of information, advisory and supports services, which enable exporters to evaluate international risks, exploit opportunities and improve competitiveness.

**For Multilateral Agencies Funded Projects Overseas (MFPO)**

Exim Bank offers value-added information and support services to Indian companies seeking business in projects funded by multilateral agencies such as the World Bank, Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development and other Official
Development Agencies like Overseas Economic Cooperation Fund of Japan. Services offered include:

- Identification of business opportunities in funded projects.
- Details on specific projects of interest.
- Information on procurement guidelines, policies and practices of multilateral agencies.
- Assistance for registration with multilateral agencies.
- Advice on preparation of Expression of Interest, Capability Profile etc.
- Advice on bids, with regard to bid evaluation, review of bid documents etc.

Apart from these, the bank also offers support services, such as leasing with Indian missions, monitoring bid performance, aids in pre-qualification etc.

**Commercial Services**

Exim Bank undertakes customized research on behalf of interested companies, in areas such as establishing market potential, defining marketing arrangements and specifying distribution channels. Bank also assist companies in developing export market entry plans, obtaining quality certifications and display of their products in its overseas offices.

**Country Profiles:** Exim Bank also undertakes country profiles, which assess the economic, political, currency and credit risks involved along with the export opportunities in the country concerned.

**Financial Counseling**

Exim Bank offers advice on how to access to foreign currency finance from multilateral institutions and import lines of credit, trade finance alternatives, collection/payment systems, as well as on the credit worthiness of business entities and banks.

**Internationalization Support**

Exim Bank helps in identifying technology suppliers, partners, and in consumption of domestic and overseas joint ventures, through its network of alliances and its overseas offices. It also advises companies on regulatory clearances, and facilitates tying-up finance for equity an working capital.
Information Access

Exim Bank issues business opportunities alerts, which communicate business leads, acquisition opportunities, industry trends, as well as collaboration opportunities from the European Commission’s network, Bureau de Rapprochement des Enterprises of which Exim Bank is a partner institution.

Building Export Capability

The Bank’s state-of-the-art Eximius Learning Centres in Bangalore and Ahmedabad organizes training programs, workshops and seminars for exporters. These programs, often on sector-specific issues, are conducted by international experts from trade promotion organizations and multinational companies.

The bank also carries out research on issues related to international trade, economics, and sector/product/country studies, which it publishes in the form of Occasional Papers.

The Bank disseminates information on export opportunities and highlights developments that have a bearing on Indian exports, through its quarterly bulletin, Eximius: Export advantage. Besides, this publication also carries a regular feature, Country Scan, which gives updates on the trade/investment climate in various countries.

The bank has in place an exporters’ club, called the Eximius Club, which offers the Club members preferential access to a range of services, such as tracking of upcoming projects, advance and timely information on available opportunities and follow-up on bids submitted by them.

International Merchant Banking Services

Exim Bank provides advisory services to Indian exporters to enable them to offer competitive financial packages when they bid for exports.

Exim Bank as an International Consultant: Highlights

Exim Bank shares its expertise in the creation and operation of a financial institution in a developing country, with countries endeavoring to set
up institutional infrastructure for international trade. The Bank’s activities in this regard till date include:

- Feasibility study for establishment of an export credit and guarantee facility for Gulf Cooperation Council (GCC) countries.
- Setting up the Afriexim Bank, Exim Bank in Malaysia, and the Export Credit Guarantee Company in Zimbabwe.
- Designing and Operationalizing of Export Financing Programs in Turkey, South Africa.
- Inputs regarding export marketing/export development for Armenia, Vietnam and Ukraine.

4. Promotional Programs

Grants to Indian Firms for MFPO Bids

Under the strategies Market Entry Support Program, Exim Bank reimburses the cost of tendering for Indian firms who have bid successfully for MFPO contracts.

Grants to Indian Firms for obtaining Product/Process Certification

Exim Bank provides grant support of up to 50 percent of the costs incurred by the company in obtaining certification. The product/process certifications covered under the program include ISO 14000, QS 9000 and CE/GS certifications.

Grants to Indian consultants for undertaking services abroad

Under the project Preparatory Services Overseas (PPSO) Program, Exim Bank provides loan/grant finance to enable Indian consultancy firms to take up project preparatory studies in developing countries, in an arrangement with International Finance Corporation (IFC) Washington. Exim Bank is a participant in the trust funds set up by the IFC in different parts of the world. As a result of this arrangement, Indian consultants can avail of grant finance for undertaking specific assignments in select countries in Africa, Eastern Europe, and the Mekong Delta Region.
<table>
<thead>
<tr>
<th>Program</th>
<th>User</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Direct Financial Assistance to Exporter</td>
<td>Indian export</td>
<td>Enables Indian exporter to extend term credit to importer overseas of eligible Indian goods</td>
</tr>
<tr>
<td>2. Consultancy &amp; Technology Services</td>
<td>Indian exporters</td>
<td>Enables Indian exporters of consultancy services &amp; technology to extend term credit to importer overseas.</td>
</tr>
<tr>
<td>3. Pre-shipment Credit</td>
<td>Indian exporters</td>
<td>Enables Indian exporter to buy raw materials and inputs where exports require long cycle time.</td>
</tr>
<tr>
<td>4. Hundred % Export Oriented Unit</td>
<td>Indian exporters</td>
<td>Enables Indian companies to acquire plant machinery, indigenous and imported, as part of fixed asset Finance.</td>
</tr>
<tr>
<td>5. Overseas Investment</td>
<td>Indian exporters</td>
<td>Enables Indian promoter to finance equity contribution in joint ventures set up abroad.</td>
</tr>
<tr>
<td>6. Overseas Buyer's Credit</td>
<td>Indian producers</td>
<td>Enables Overseas buyer to pay cost of eligible goods imported from India on deferred terms.</td>
</tr>
<tr>
<td>7. Lines of Credit</td>
<td>Overseas Financial Institutions, foreign Government &amp; their designated agencies</td>
<td>Enables overseas financial institutions, foreign governments, their agencies to onlend term loans to finance import of eligible goods. Buyer would be in the country where such re-lenders are located.</td>
</tr>
<tr>
<td>8. Refinance of export credit</td>
<td>Commercial banks in India who are authorized to deal in foreign exchange</td>
<td>Enable banks to offer credit to Indian exporters of eligible goods, who extend term credit to foreign buyers.</td>
</tr>
<tr>
<td>9. Export Bill's Rediscounting</td>
<td>Commercial banks in India, who are authorized to deal in foreign exchange</td>
<td>Enable banks to fund post-shipment export credit extended to Indian exporters.</td>
</tr>
<tr>
<td>10. Small Scale Industry (ESI) Export Bills Rediscounting</td>
<td>Commercial banks in India, who are authorized to deal in foreign exchange</td>
<td>Enables banks to fund post-shipment export credit to SSI exporters.</td>
</tr>
<tr>
<td>11. Re-lending facility</td>
<td>Bank overseas</td>
<td>Enables overseas banks to make available term finance to their clients, for import of eligible Indian goods.</td>
</tr>
<tr>
<td>12. Computer software</td>
<td>Software exporters</td>
<td>Enable acquisition of imported and indigenous computer systems, and project related assets. Clearance and finance facility for exporters undertaking export obligation of 35% of foreign exchange used for imported computer systems.</td>
</tr>
</tbody>
</table>
13. Agency Credit Line\(^6\) Indian exporters Enables Upgradation / expansion of export production capabilities of small and medium enterprises.

14. Export Marketing \(*\) Indian exporters Enables exporters to implement market development programmes.

\# In collaboration with International finance Corporation, Washington.
\* Component of a World bank Loan for export development (engineering products)


**Export Contracts\(^5\)**

During the year (2002-03) contracts amounting to Rs. 65.31 bn covering forty five countries were secured by fifty nine Indian exporters with Exim ban’s support as against fifty nine contractors worth Rs. 41.62 covering twenty six countries, secured by thirty four Indian exporters. The contract secured during the year with Exim bank’s support consisted of twenty five Turnkey contracts valued at Rs. 31.22 bn, seventeen construction contracts values at Rs. 16.96 bn, fifty five supply contracts valued at Rs. 14.47 bn and thirteen consultancy contracts valued at Rs. 2.66 bn.

**Export Credits and Guarantees\(^6\)**

During the year (2002-03) bank sanctioned Rs. 31.56 bn by way of supplier’s credit, buyer’s credit and finance for project exports as against Rs. 19.02 bn during the previous year, which represents 66 percent growth in sanctions during the year. Disbursements amounting to Rs. 22.28 bn were made during the year as compared to Rs. 17.48 bn during the previous year. Guarantees sanctioned amounted to Rs. 9.33 bn as against Rs. 5.45 bn sanctioned during the previous year.

**Lines of Credit**

Exim bank extends lines of credit to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to finance and promote India’s exports to its trading partners, especially the developing countries. During the year (2002-03) the bank extended seven lines of credit aggregating $ 257 mn to support exports of
goods and services from India. During the year the largest ever lines of credit of
$ 200 mn to seven Iranian commercial banks was concluded.

**Building Export Competitiveness:**

Bank operates a range of financing programs aimed at enhancing exports
competitiveness of Indian companies. During 2000-03, bank sanctioned loans
aggregating Rs. 34.39 bn under the programs for enhancing export
competitiveness. Disbursement amounted to Rs. 29.39 bn under these
programs.

**Loans to Export Oriented Units:**

During the year bank sanctioned term loans of Rs. 16.52 bn to eighty
exports oriented units, including Rs. 11.31 bn by way of refinance to
commercial banks in respect of thirty-seven units. Disbursements amounted to
Rs. 14.63 bn, including refinance to commercial banks of Rs. 11.31 bn.

Under production equipment finance program, twenty-eight exporting
companies were sanctioned Rs. 3.09 bn for financing acquisition of production
equipment. Disbursements amounted to Rs. 2.71 bn. Forty-four companies were
sanctioned long-term working capital loans aggregating Rs. 7.46 bn.
Disbursements amounted to Rs. 5.72 bn.

**Technology Upgradation Fund Scheme**

Bank, as a primary lending institution under the Technology
Upgradation Fund Scheme for the Textile and Jute industries introduced by
government of India, sanctioned loans aggregated Rs. 1.27 bn to fourteen
companies. Disbursements aggregated Rs. 753.0 mn.

**Finance for Research and Development**

During the year 2002-03 Finance of Rs. 23.8 mn was extended to
support research and development efforts of three companies in the
pharmaceutical sector.
Software Training Institutes

Bank extends finance for establishment and expansion of software training institutes. Finance of Rs. 9.0 mn was extended to one software training institute during the year.

Export Marketing Finance/Export Product Development

During the year 2002-03, bank sanctioned Rs. 150.5 mn to five companies and disbursed Rs. 106.9 mn for strategic export market development plans to penetrate and sustain presence in developed country markets in computer software and agro and food processing sectors.

Overseas Investment Finance

During the year 2000-03, loans aggregating Rs. 1.13 bn were sanctioned to four companies for finance subsidiaries/joint ventures abroad. Disbursements during the year amounted to Rs. 825.3 mn.

Export Facilitation Program

During the year 2002-03, bank sanctioned Rs. 1.93 bn for port services of which Rs. 1.68 bn was by way of refinance to commercial banks. Disbursements amounted to Rs. 1.32 bn.

Finance for Imports

Bulk import finance: Under bulk import finance program, sanctions and disbursements amounted to 250 mn and Rs. 300 mn respectively.

Import Finance Program

Under import finance program, six companies were sanctioned term loans of Rs. 32.37 bn of which Rs. 800 mn by way of refinance to commercial banks. Disbursements amounted to Rs. 3.25 bn.
### Table – 2

**Funded Assistance Sanctioned and Disbursed by Exim Bank**

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions</th>
<th>Growth rate %</th>
<th>Disbursements</th>
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**Source:** Compiled from Annual Report, 2002-2003, of Exim Bank, Mumbai

**Analysis of Operations**

During 2002-03 (April-March), Bank sanctioned Rs. 78.28 bn under various lending programs as against Rs. 42.41 bn in the year 2001-02 (April-March), registering a growth of 84.6 per cent. Disbursements during the year were Rs. 53 20 bn as against Rs. 34.53 bn during 2001-02 representing 54.1 per cent growth. Loans and advances as at March 31, 2003 were Rs. 86.89 bn registering an increase of 31.4 per cent over the previous year. During the year,
bank sanctioned guarantees aggregating Rs. 9.33 bn as against Rs. 5.45 bn in 2001-02 guarantees issued amounted to Rs. 7.27 bn as against Rs. 4.16 bn in 2001-02. Guarantee Portfolio, as at March 31, 2003 was Rs. 16.13 bn as against Rs. 11.27 bn at March 31, 2002.

Rupee loans and advances accounted for 74.5 per cent of the total loans and advances outstanding as at March 31, 2003 while the balance 25.5 per cent were in foreign currency. Short-term loans accounted for 13.8 per cent of the total loans and advances.

Bank registered profit before tax of Rs. 2.69 bn on account of General Fund during 2002-03 as against a profit of Rs. 2.21 bn for the year 2001-02. After providing for income tax of Rs. 620 mn, profit after tax amounted to Rs. 2.07 bn during 2002-03 as against Rs. 1.71 bn during 2001-02, registering a growth of 21.1 per cent. Out of this profit, Rs. 450 mn accounts for dividend to the Government of India (GOI). A provision of Rs. 57.7 mn has been made for tax on distributed profit by way of dividend. An amount of Rs. 721.2 mn has been transferred to Reserve Fund. In addition, bank has transferred Rs. 250 mn to Investment Fluctuation Reserve, Rs. 37.1 mn to Sinking Fund (Lines of Credit) and Rs. 550 mn to Special Reserve u/s 36 (1) (viii) of the income Tax Act. 1961. Profit before tax of the Export Development Fund during 2002-03 was Rs. 22.7 mn as against Rs. 25.5 mn during 2001-02. After providing for tax of Rs. 7.1 mn, the post tax profit amounted to Rs. 115.5 mn as against Rs. 16.4 mn during 2001-02. The profit of Rs. 15.5 mn is carried forward to the next year.

**Export Credit and Guarantee Corporation (ECGC)**

Export Credit Guarantee Corporation of India Limited, was established in the year 1957 by the Government of India to strengthen the export promotion drive by covering the risk of exporting on credit.

Being essentially an export promotion organization, it functions under the administrative control of the Ministry of Commerce, Government of India.
it is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking insurance and exporting community, ECGC is the fifth largest credit insurer of the world in terms of coverage of national exports. The present paid-up capital of the company is Rs. 500 crore.

The objectives of the corporation, as listed in the Articles of Association, are:

(a) To provide insurance to exporters against any risk of loss by reason of their failure to recover any amount payable in respect of transaction involving export, manufacture treatment, or distribution of goods, the rendering of services or any other matter which is conducive to the objects of the company;

(b) To give guarantees to or for the benefit of persons residing in or belonging to a foreign country, in connection with goods exported or services rendered from India;

(c) To give facilities for financing exports;

(d) To provide such supplementary finance as may be required for promotion and development of exports;

(e) To give loans against hypothecation of pledge of goods, title to property, for the purpose of promoting export trade;

(f) To provide financial help for the purchase of Indian goods on extended payment terms;

(g) To provide guarantees in respect of advances given by banks and other financial institutions in connection of export of goods;

(h) To give guarantees to exporters with a view to assisting them in conducting market surveys, publicity and stock holding for the development of overseas markets and to share expenses on such promotional measures if expenses are not fully recouped with sales;

(i) To undertake such functions as may be entrusted to it by the government from time to time, including grant of credits and guarantees in foreign
currency for the purpose of facilitating the import of raw materials and semi finished goods for manufacturing and processing of goods for exports.

(j) To act as agent of the government or with the sanction of government on its own account, to give guarantees, undertake such responsibilities and discharge such functions as are considered necessary in national interest.

The primary Goal of ECGC is to support and strengthen the export promotion derive in India; by providing a range of credit risk insurance covers to exporters against loss in export of goods and services, and also by offering guarantees to Banks and Financial institutions to enable exporters obtain better facilities form them.

ECGC— provides a range of credit risk insurance covers to exporters against loss in export of goods and service, offers guarantees to banks and financial institutions to enable exporters obtain better facilities from them and provides overseas Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan.

It offers insurance protection to exporters against payment risks, provides guidance in export –related activities, makes available information on different countries with its own credit ratings, makes easy to obtain export finance from banks/financial institutions, assists exporter in recovering bad debts

Information on credit – worthiness of overseas buyers

Need of Export Credit Insurance

Payment for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far-reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may block or delay payment for goods exported. A coup or an insurrection may also bring about the same result. Economic difficulties or balance of payment problems may lead a country to impose restrictions on either of certain goods or
on transfer of payments for goods imported. In addition the exporters have to face commercial risk of insolvency or protracted default of buyers. The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are aggravated due to the political and economic uncertainties. Export credit insurance is designed to protect exporters from the consequences of the payment risks. Both political and commercial, and to enable them to expand their overseas business without fear of loss.9

The products and service offered by ECGC are broadly classified as under

(i) Standard Policies issued to exporters to protect them against payment risk involved in (a) exports on deferred terms of payment, (b) services rendered to foreign parties and (c) construction works and turnkey projects undertaken abroad;

(ii) Specific policies designed to protect Indian firms against payment risk involved in (a) Exports on deferred terms of payment, (b) services rendered to foreign parties and (c) construction works and turkey projects undertaken abroad;

(iii) Financial guarantees issued to banks in India to protect them from risks loss involved in their extending financial support to exporters at the pre-shipment as well as post-shipment stages; and

(iv) Special Schemes viz. Transfer Guarantee meant to protect banks which add confirmation to Letters of Credit opened by foreign banks, Insurance cover for Buyers Credit, Lines of Credit, Overseas Investment Insurance and Exchange Fluctuation Risk Insurance.

1. Standard Policies

ECGC has designed four types of Standard Policies to provide cover for shipment made on short-term credit.
(i) Shipments (comprehensive Risks) Policy – to cover both commercial and political risks from the date of shipment;

(ii) Shipments (Political risks) Policy – to cover only political risks from the date of shipment;

(iii) Contracts (Comprehensive Risks) Policy – to cover both commercial and political risks from the date of contract.

(iv) Contracts (Political Risks) Policy – to cover only political risks from the date of contract.

Shipment (Comprehensive Risks) Policy is the one ideally suited to cover risks in respect of goods exported on short-term credit. This policy covers both commercial and political risks from the date of shipment. Risk of pre-shipment losses due to frustration of export contracts is nil or very low since goods exported on short-term credit are raw materials, primary goods, consumer goods or consumer durable which can be resold easily. Contract Policies, which cover risks from the date of contract, are issued only in special cases when goods to be exported are manufactured to non-standard specifications of a buyer.

Shipment to associates or to agents and those against letters of credit can be covered for only political risks by suitable endorsements to the Shipments (Comprehensive risks) policy. Premium is charged on such shipments at lower rates. “Deemed exports” can also be covered under the Comprehensive Risks Policies.

**Risk Covered**

The risks covered under the Standard Policies are:

(i) **Commercial Risks**

(a) Insolvency of the buyer;

(b) Buyer’s protracted default to pay for goods accepted by him; and

(c) Buyer’s failure to accept goods subject to certain conditions.
(ii) Political Risks

(a) Imposition of restrictions on remittances by the government in the buyer’s country or any government action which may block or delay payment to the exporter;

(b) War, revolution or civil disturbances in the buyer’s country;

(c) New import licensing restrictions or cancellation of a valid import license in the buyer’s country after the date of shipment or contract as applicable;

(d) Cancellation of export license or imposition of new export licensing restrictions in India after effective date of contract; (under contracts policy);

(e) Payment of additional handling, transport or insurance charges occasioned by interruption or diversion of voyage which cannot be recovered from the buyer and

(f) Any other cause of loss occurring outside India, not normally insured by commercial insurers, and beyond the control of the exporter and/or the buyer.

Risk not covered

The Standard policies do not cover losses due to the following risks:

(a) Commercial disputes including quality disputes raised by the buyer, unless the exporter obtains a decree from a competent court of law in the buyer’s country in his favour;

(b) Causes inherent in the nature of the goods;

(c) Buyer’s failure to obtain necessary import or exchange authorization from authorities in his country;

(d) Insolvency or default of any agent of the exporter or of the collecting bank;

(e) Loss or damage to goods which can be covered by commercial insurers;
(f) Exchange fluctuation; and  
(g) Discrepancy in documents.

**Exporter Co-insurer**

It is customary in credit insurance to make the insured share a small percentage of the risk. ECGC normally pays 90 per cent of the losses on account of political or commercial risks. In the event of loss due to repudiation of contractual obligations by the buyer. ECGC indemnifies the exporter up to 90 per cent of the loss if final and enforceable decree against the overseas buyer is obtained in a competent court of law in the buyer’s country. The Corporation, at its discretion, may waive such legal action where it is satisfied that such legal action is not worthwhile and a in that event also losses are indemnified up to 90 per cent. Recoveries made after the payment of claim are shared with the ECGC in the same proportion in which the loss was borne.

**Whole Turnover Principle**

ECGC expects a fair spread of risks insured. Therefore an exporter is required to insure all the shipments that may be made by him during the next 2 years, except those made against advance payment or irrevocable letter of Credit confirmed by banks in India. Exclusions are, however, possible where items are not of an allied nature.

**How to obtain Policy**

An intending exporter should fill in a proposal form (No. 121) available with all ECGC offices and submit it to the nearest office. After examining the proposal, ECGC would send him an acceptance letter stating the terms of its cover and premium rates. The policy will be issued after the exporter conveys his consent to the premium rates and pays a non-refundable policy fee which will be Rs. 100/- for policies with Maximum Liability limit upto Rs. 5 lakhs; Rs. 200/- between Rs. 5 lakhs and Rs. 20 lakhs and Rs. 100/- for each additional Rs. 10 lakhs or part thereof subject to ceiling of Rs. 2500/-. 
Maximum Liability

Maximum Liability is the limit upto which ECGC would accept liability for shipment made in each of the policy-years. It will be advisable for exporters to estimate the maximum outstanding payments due from overseas buyers at any time during the policy period and to obtain the policy with maximum liability for such value. The maximum liability fixed under the policy can be enhanced subsequently, if necessary.

Declaration of Shipments and Payment of Premium

The premium rates are closely related to the risks involved and vary according to countries to which goods are exported and the payment terms.

An exporter who has taken a shipment policy has to send, by the fifteenth of each month, a declaration of shipments made in the previous month, in the prescribed form (No. 203). An exporter who obtains a Contract has to send a declaration of all outstanding contracts immediately after the policy is issued. Thereafter he shall send a monthly declaration of contracts concluded and shipments made by him during the previous month. Premium has to be paid along with the declaration at rates shown in the schedule attached to the policy.

Consignment Exports

Exports on consignment bases are covered under shipments (Comprehensive Risks) policy by a suitable endorsement thereon. While political risks are covered from the date of shipment till the date of receipt of payment in India, commercial risks are covered only after the agent/stockholder submits the ‘Accounts Sales’ to the exporter the risk of the Agent/Stockholder an returning the unsold goods is not covered under the policy.

Credit Limit

Commercial risks are covered by ECGC subject to approval of a credit limit on each buyer. Credit limit is the limit upto which claim can be paid under the policy for losses on account of commercial risks. As commercial risks are
not covered in the absence of a credit limit, exporters would be well advised to apply to ECGC for approval of credit limit. If complete information regarding the buyer and his banker is given in the credit limit application, it will facilitate receipt of credit information expeditiously. ECGC obtains credit information on overseas buyers through banks and credit information agencies. On the basis of credit information and its own experience, ECGC fixes suitable credit limit on overseas buyers.

In case an exporter has already obtained a credit report on the buyer or is in possession of other information that can help ECGC in fixing credit limit, the same may be furnished along with credit limit application to facilitate quick decision. If the exporter needs an enhancement in limit, he may apply in the prescribed form (No. 144A) giving his past experience with the buyers.

**Reporting Defaults**

In the event of non-payment of any bill, policy-hides are required to take prompt and effective steps to prevent or minimize loss. A monthly declaration of all bills which remain unpaid for more than 30 days should be submitted to ECGC in the prescribed from (No. 205) indicating action taken in each case.

Granting extension of time for payment, converting bills from D/P to D/A terms or resale of unaccepted goods at a lower price require prior approval of ECGC.

**Settlement of Claims**

A claim will arise when any of the risks insured under the policy materialize. If an overseas buyer goes insolvent, the exporter becomes eligible of a claim one month after his loss is admitted to rank against the insolvent’s estate. In case of protracted default, claim is payable after four months from the due date. Claims in respect of additional handling, transport or insurance charges incurred by the exporters because of interruption or diversion of voyage outside India are payable after proof of loss is furnished. In all other cases claim is payable after four months from the date of the event causing loss.
However, in case of exports to countries where long transfer delays are experienced, ECGC may extend the waiting period and claims for such shipments are payable after the expiry of such extended period.

Where the buyer does not accept goods or pay for them because of differences over fulfillment of the terms of contract by the exporter, counter claims or set-off ECGC considers claims after the dispute between the parties is resolved and the amount payable is established by obtaining a decree in a court of law in the country of the buyer. This condition is viewed in cases where the corporation is satisfied that the exporter is not at fault and that no useful purpose would be served by proceeding against the buyer.

**Debt Recovery**

Payment of claim by the ECGC does not relieve an exporter of his responsibility for taking recovery action and realizing whatever amount can be recovered. The exporter should, therefore, consult the ECGC and take prompt and effective steps for recovery of the debt. For its part, ECGC will help exporter by providing the name of a reliable lawyer or debt collecting agency and by enlisting the help of India’s commercial representative in the buyer’s country.

All amounts recovered, net of recovery expense, should from obligations to the Exchange Control Authority for recovering the amount from the overseas buyers.

**2. Specific Policies**

The Standard Policy is a whole turnover policy designed to provide a continuing insurance for the regular flow of an exporter’s shipments of raw materials, consumer goods and consumer durable for which credit period does not exceed 180 days. Contracts for export of capital goods or turnkey projects or construction works or rendering services abroad are not of a repetitive nature. Such transactions are, therefore, insured by ECGC on a case to case basis under specific policies.
All contracts for export on deferred payment terms and contracts for turnkey projects and construction works abroad require prior clearance of Authorized Dealers, Exim Bank or the Working Group in terms of powers delegated to them as per exchange control regulations. Applications for this purpose are to be submitted to the Authorized Dealer (the financing bank) which will forward application beyond its delegated power to the Exim Bank.

Specific Policy for Supply Contracts

Specific Policy for supply contracts may take any of the following four forms:

(i) Specific Shipments (comprehensive Risks) Policy to cover both commercial and political risks at the post-shipment stage;

(iii) Specific Shipments (Political Risks) Policy to cover only political risks at the post-shipment stage in cases where the buyer is an overseas Government or payments are guaranteed by a Government or by banks, or are made to associates;

(iv) Specific contract (comprehensive Risks) Policy; and

(v) Specific Contract (Political Risks) Policy.

Contract Policy provides cover from the date of contract. Losses that may be sustained by an exporter at the pre-shipment stage due to frustration of contract are covered under this policy in addition to the cover provided by the shipment policy.

Insurance cover for Buyer’s Credit & Line of Credit

Financial institutions in India, like those in several other countries, have started direct lending to buyers or financial institutions in developing countries for importing machinery and equipment from India. This kind of financing facilitates immediate payment to exporters and frees them from the problems of credit management as well as from the fear of loss on account of overseas credit risks. Financing may take the form of Buyer’s Credit or line of Credit. Buyer’s Credit is a loan extended by a financial institution, or a consortium of Financial
Institutions in the importing country for financing import of specified terms of the credit.

Service Policy

Where Indian firms render services to foreign parties, they would be exposed to payment risks similar to those involved in export of goods. Service Policy offers protection to Indian firms against such payment risks. The policy has been designed broadly on the lines of ECGC insurance policies covering export of goods.

Normally cover is issued on a case-to-case basis, covering risks from the date of contract. If the employer is an overseas government or if payment or a bank, a specific services contract (Political Risks) policy can be obtained. A specific services contract (Comprehensive Risks) Policy will be appropriate for contracts concluded with private buyers not supported by bank guarantees.

If the nature of services rendered by an exporter is such that contracts covering short periods of time are concluded with a set of buyers on repetitive basis, it would be convenient for him to obtain a whole turnover Services Policy providing cover for either comprehensive risks or only political risks. Such policies will obviate the need for getting approval of the Corporation for each and every contract. Contracts can be concluded with any buyer within credit limits approved by the Corporation and declared under the policy. Exporters taking such policies are required to cover under the policy all contracts that may be concluded by them over the policy period of 2 years.

A wide range of services like technical or professional services hiring or leasing can be covered under the policies.

The Comprehensive Risks Policy covers the following risks:

(i) Insolvency of the buyer;
(ii) Protracted default in payment;
(iii) Restriction on remittances in the buyer’s country or any Government action which may block or delay payment to the exporter;
(iv) War between India and the buyer’s country;
(v) Revolution or other civil disturbances in the buyer's country;
(vi) government action in India or in buyer's country which prevents the performance of the contract; and
(vii) any other cause of loss occurring outside India and beyond the control of the buyer or the seller.

The policies do not cover losses arising from event preventing the completion of the contract in circumstances where such frustration could free the buyer from his obligation to make payment under the contract.

The policy covers 90 per cent of the loss suffered by the seller. The claim is payable after four months from the due date of payment if the loss arises due to the risk of protracted default. In case of insolvency, claim is payable after four months from the due date of payment or one month after the loss is admitted to rank against the insolvent's estate, Whichever is earlier. It is payable after four months from the due date or the date of the event which is the cause of loss, as the case may be if the loss is caused by any of the other risks.

Premium rates are closely related to the risks involved and vary according to the country of the buyer and the terms of payment. Quotations for any specific preposition or business on hand can be obtained by writing to ECGC giving details thereof.

The Services Policy covers such contracts under which only services are to be rendered. Contracts under which rendering of services is part and parcel of bigger contract for supply of goods or machinery or erection of a plant are covered under Construction Works Policies.

**Construction Works Policy**

ECGC's Construction Works Policy covers civil construction jobs as well as turnkey projects involving supplies and services. It provides cover for all payments that fall due to the contractor under the contract.

Two types of policies have been evolved to cover contracts with (I) Government buyers and (ii) Private buyers. The former covers political risks in
respect of contracts with overseas Governments or where the payments are guaranteed by Governments and the latter comprehensive risks. In case of contracts with private employers, the policy may be issued to cover only political risks if the payments are guaranteed by a bank or covered by L/C.

The policy has been designed to cover business done under the standard conditions of contract (International) prepared by the Federation International due Batiment et des Travaux Publics (F.I.B.T.P.); but it may be modified to apply to other contracts.

The following risks are covered in case of contracts with government employers or if the payments are guaranteed by the employer’s Government:

(i) Default of the Government employer;
(ii) Delay in the transfer of payments to India;
(iii) War between India and the employer’s country;
(iv) Civil war or similar disturbances in the employer’s country;
(v) Imposition of import or export licensing (or cancellation of an existing license) for goods or materials manufactured or purchased by the contractor after the date of contract, for use on the contract, and for which on the date of loss the employer has no obligation to pay in terms of the contract;
(vi) Additional handling, transport or insurance charges due to interruption or diversion of voyage; and
(vii) The employer’s failure to pay to the contractor sums awarded in arbitration proceedings under the contract.

The percentage of loss payable by ECGC is 85 under policies issued to cover contracts with Government employers and 75 in case of policies covering contracts with private employers.

The policy is issued on the basis of estimated basic contract price. Estimated interest and other payments due under the contract. Premium is payable at the outset on the estimated figures. Proportionate refund of premium
is allowed where the actual contract price and interest charges fall below the estimates.

Cover can also be provided for the contractor’s equipments (such as cranes, bulldozers and trucks which are used for the construction) against the risk of confiscation, by means of an endorsement to the policy if the contractor so desires.

The policy is issued to cover specific contracts and takes effect from the date of contract.

3. Financial Guarantees

Exporters require adequate financial support form banks to carry out their export contracts. ECGC’s guarantees protect the banks from losses on account of their lendings to exporters. These guarantees have been designed to encourage banks to give adequate credit and other facilities for exports, both at pre-shipment stages, on a liberal basis.

Six guarantees have been evolved for the purpose:

(i) Packing Credit Guarantee
(ii) Export Production Finance Guarantee
(iii) Post-shipment Export Credit Guarantee
(iv) Export Finance Guarantee
(v) Export Performance Guarantee
(vi) Export Finance (Overseas Lending) Guarantee

These guarantees give protection to banks against losses due to non-payment by exporters on account of their insolvency or default. ECGC pays three-fourths of the loss in the case of Post-shipment Export Credit Guarantee. Export Finance Guarantee, Export Performance Guarantee and Export Finance (Overseas Lending) Guarantee and two thirds of the loss in others.

The corporation agrees to pay higher percentage of loss to banks, which offer to cover all their pre-shipment advances under a Whole turnover Packing Credit Guarantee. Similarly, a higher percentage of cover is offered under Post-
shipment Export Credit Guarantee if the bank agrees to cover all its post-shipment advances on whole turnover basis.

In special cases, ECGC also considers payment of claim to the extent of 80 per cent of the loss in respect of advances granted under Post-shipment Export Credit Guarantee against shipments of engineering and metallurgical items of the value of Rs. 2 cores or more under a single contract. In the case of Export Performance Guarantee and Export Finance (Overseas Lending) Guarantee ECGC provides higher cover of 90 per cent of the loss on payment of proportionately premium.

(i) Packing Credit Guarantee

Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods meant for export against a firm order or Letter or Credit qualifies for Packing Credit Guarantee. Pre-shipment advances given by banks to parties who enter into contracts for export of services or for construction works abroad, to meet preliminary expenses in connection with such contracts are also eligible for cover under this guarantee. The requirement of lodgment of letter of credit/export order for granting Packing Credit advances may be waived, as permitted by the Reserve Bank of India for certain commodities.

The premium rate is 7.5 paise per Rs. 100 per month or part thereof. A lower rate of 3.5 paise/5 paise per Rs. 100 per month is charged under the Whole turnover packing Credit Guarantee (WTPCG) depending upon the volume of business. Premium under WTPCG is payable on the daily average product basis, while under individual guarantees it is payable on maximum out standings. The percentage of loss covered under the Whole turnover Packing Credit Guarantee is 75 as against $66^{2/3}$ per cent under individual guarantee.

Banks which opt for WTPCG will be eligible for similar concessions in respect of Export Production Finance Guarantee and Export Finance Guarantee also. These concessions are available also in respect of advances against
contracts for supplies on deferred terms and for construction works, but the banks will have to obtain separate guarantees for such advances.

(ii) **Export Production Finance Guarantee**

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 f.o.b. value of the contract/order. The difference representing incentives receivable. The extent of cover and the premium are the same as for Packing Credit Guarantees. Banks having WTPCG/WTPSG are eligible for concessionally premium rate and higher coverage.

(iii) **Post-shipment Export Credit Guarantee**

Post-shipment finance given to exporters by banks through purchase, negotiation or discount of export bills or advances against such bills qualifies for this guarantee. It is necessary, however, that the exporter concerned should hold suitable shipments or contracts policy of ECGC to cover the overseas credit risks. The premium rate for this guarantee is 5 paise per Rs. 100 per month.

This guarantee is also issued on whole turnover basis, offering a higher percentage of cover at a reduced rate of premium. The percentage of cover under the whole turnover Post-shipment Guarantee is 85 for advances granted to exporters holding ECGC policy. Advances to non-policy holders are also covered with percentage of cover being 60. The premium rate is 2 paise per Rs. 100 per month are advances against L/C bills are also covered under the guarantee, otherwise it is 2.5 paisa.

(iv) **Export Finance Guarantee**

This guarantee covers post-shipment advances granted by banks to exporters against export incentives receivable in the form of cash assistance, duty drawback etc. The premium rate for this guarantee is 5 paise per Rs. 100 per month and the cover is 75 per cent. Banks having WTPCG/WTPSG are eligible for concessionally premium rate and higher coverage.
(v) **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 licenses for raw materials or capital goods, exporters may have to execute an undertaking to export goods of a 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 goods without payment of duty or for exemption from tax for goods procured for export obligations to Export Promotion Councils, Commodity Boards, the State Trading Corporation of India, the Minerals and Metals Trading Corporation of India or recognized Export Houses. To protection to banks, which issue the above types of guarantees, ECGC has evolved the Export Performance Guarantee.

An export proposition may be frustrated if the exporter’s bank is unwilling to issue the guarantee. The export performance guarantee is aimed at meeting such situations. The Guarantee which is in the nature of a counter-guarantee to the bank is issued to protect the bank against losses that it may suffer on account of guarantees given by it on behalf of exporters. This protection is intended to encourage banks to give guarantees on a liberal basis for export purposes.

Normally, cover is extended up to 75 percent of loss but in the case of guarantees in connection with 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.
While the premium rate for guarantees issued to cover bonds relating to exports on short-term credit is 0.90% p.a. for 75% cover and 1.08% p.a. for 90% cover, it is lower for bonds relating to exports on deferred credit and projects. The rate of premium is 0.08% p.a. for 75% cover and 0.95% cover and 0.90% p.a. for 90% cover.

In the case of Bid Bonds relating to exports on medium/long term credit, overseas projects, and the projects in India financed by International financial institutions or as well as supplies to such projects, ECGC is agreeable to issue Export-performance Guarantee on payment of 25% of the prescribed premium. The balance premium of porter succeeds in the bid and gets the contract.

**(vi) Export Finance (Overseas Lending) Guarantee**

If a bank financing as project provides a foreign currency loan to the contractor, it can protect itself from the risk of nonpayment by the contractor by obtaining Export Finance (Overseas Lending) Guarantee, Premium rate will be 0.90% per annum for 75% cover and 1.08% per annum for 90% cover. Premium is payable in Indian Rupees. Claims under the guarantee will also be paid only in Indian Rupees.

**Special Facilities**

**(i) Small Scale Exporters**

With a view to enabling the small-scale sector to participate to a greater extent in the export activities of the country. ECGC provides special facilities to small scale exporters by offering higher percentage of cover and procedural relaxation under its policies and guarantees.

These facilities will apply to exporters whose annual export turnover is more than Rs. 10 lakhs and total annual turnover, including exports, does not exceed Rs. 25 lakhs. Also small scale industrial units as defined by Government of India whose annual exports do not exceed Rs. 10 lakhs shall be deemed to be small-scale exporters even though their total turnover may exceed Rs. 25 lakhs. Further exports made by qualifying small-scale exporters through (a) co-
operative of artisans (b) co-operatives or associations or consortia of small scale industries (c) handloom and Handicrafts Export Corporation or State Export Corporation (d) State Small-scale Industries Corporation and (e) National Small Industries Corporation are also eligible for these special facilities.

Main facilities provided under the scheme are: Higher cover of 90 per cent for banks under the whole turnover packing Credit Guarantee; and higher cover of 90 per cent under the whole turnover Post-shipment Export Credit Guarantee in respect of exporters who have taken ECGC contracts/shipments policy and 65 per cent cover for non-policy holders. Cover under standard policy is increased to 95 per cent against commercial risks and 100 per cent against political risks, provided the Maximum Liability under the policy does not exceed Rs. 5 lakhs. The waiting period for payment of all types of claims is reduced to half the normal stipulated period.

(ii) **Simplified Scheme for Small Exporters**

With the objective of helping small exporters, ECGC has evolved a simplified scheme viz. the Lump sum Premium Scheme. The scheme is applicable to the exporters whose annual export turnover does not exceed Rs. 10 lakhs. The maximum liability of the policy under the scheme is restricted to Rs. 5 lakhs.

The rate of premium on the policy is 50 paise per Rs. 100 per annum on the maximum liability of the policy, payable as a lump sum at the time of the issue of the policy. Small exporters who opt for this scheme have to observe all the terms and conditions of policy but they are not required to submit monthly shipment declarations. Specific approval has to be obtained in respect of exports to 'Restricted Cover Countries; such as exports would attract payment of specific approval fee, wherever applicable. Shipments to restricted cover countries are required to be declared every month in form (No. 203) by the 15th
of succeeding month and premium paid thereon at the rates indicated in the premium schedule attached to the policy.

(iii) Exporters of Books and Publications

In view of the special features of export trade in books and publications, the following liberalization have been made under the Standard Policy for exporters of books and publications.

1. In case of exports to individuals, on whom Credit Limit is not fixed normal cover of 90% will be available provided that the value of each consignment does not exceed Rs. 2000/-.

2. In case of exports to regular book dealers, on whom credit limit is not fixed, normal cover of 90% will be available provided that the value of each consignment does not exceed Rs. 5000/-.

3. In case of exports to Institutions like Universities, Libraries and Research organization, on whom no credit limit is fixed, normal cover of 90% will be available provided that the value of each consignment is not more than Rs. 15,000/-.

4. Cover upto Rs. 15 will be available for exports to an individual, institution, or a dealer if at least two shipments on similar terms of payment had been made in the preceding twelve months and payment for them received on due dates.

5. Shipments made in a calendar month can be declared, along with payment of premium, before the 25th of the following month, as against the normal time limit of 15 days.

6. Premium will be charged at a special low rate, varying with the group under which the country is classified.

The liberalized facilities are available only to reputed publishers for exports to Australia, Canada, USA, UK, and countries in Western Europe.
Special Schemes

(i) Transfer Guarantee

When a bank in India adds its confirmation to a foreign letter of Credit, it binds itself to honour the drafts drawn by the beneficiary of the letter of Credit without any recourse to him provided such drafts and drawn strictly in accordance with the terms of the Letter of Credit. The confirming bank will suffer a loss if the foreign bank fails to reimburse it with the amount paid to the exporter. This may happen due to the insolvency or default of the opening bank or due to certain political risks such as war, transfer delays or moratorium which may delay or prevent the transfer of funds to the banks in India. The Transfer Guarantee seeks to safeguard banks in India against losses arising out of such risks. Transfer Guarantee is issued at the option of the bank, either to cover political and commercial risks. Loss due to political risks is covered upto 90 per cent and loss due to commercial risk upto 75 per cent.

Premium will be charged at rates normally applicable to the Corporation’s insurance policy covering export of goods.

(ii) Overseas Investment Insurance

With the increasing exports of capital goods and turnkey projects from India, the involvement of exporters in capital participation in overseas projects has assumed importance. The developing countries, who are our main customers, have the problem of scarcity of capital and management skills and may like to invite Indian participation in capital and management when large turnkey projects are set up. The exporter’s participation in capital and management when large turnkey projects are set up. The exporter’s participation in capital and management in stills confidence in the buyer about proper functioning of the project.

ECGC has evolved a scheme to provide protection for such investments. Any investment made by way of equity capital or untied loan for purpose of
setting up or expansion of overseas projects will be eligible for cover under investment insurance.

The investments may be either in cash or in the form of export of Indian capital goods and services. The cover would be available for the original investment together with annual dividends and interest payable.

The risks of war, expropriation and restriction on remittances are covered under the scheme. As the investor would be having a hand in the management of the joint venture, no cover for commercial risk would be provided under the scheme. For investment in any country to qualify for investment insurance there should preferably be a bilateral agreement providing cover in the absence of any agreement or code, provided it is satisfied that the general laws of the country afford adequate protection to the Indian Investment.

The period of insurance cover will not normally exceed 15 years. In case of projects involving long erection period cover may be extended for a period of 15 years from the date of commencement of investment. Amount insured shall be reduced progressively in the last five years of the insurance period.

(iii) 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 contractors and consultants who have often to receive payments over a period of years for their exports, construction work or services. Where such payments are to be received in foreign currency, they are open to exchange fluctuation risk and the forward exchange market does not provide cover for such deferred payments.

The Exchange Fluctuation Risk Cover is available for payments scheduled 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 the final installment.

At the stage of bidding, an exporter/contractor can obtain Exchange fluctuation Risk (Bid) cover. The basis for 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/contractor is required to obtain Exchange Fluctuation (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 the rate prevailing on the date of contract, at the option of the exporter/contractor. If the bid is unsuccessful, 75 per cent of the premium paid by the exporter/contractor is refunded to him.

The exchange Fluctuation Risk (Contract) Cover can be issued only if the payments under the contract are scheduled to be received beyond 12 months from date of contract but in such cases, the cover apply for any installment falling due within 12 months as well. Cover will be available for all amounts receivable under the contract, whether it is payment for goods or services or interest or any other payment. Contracts coming under Buyer’s Credit and lines of Credit are also eligible for cover under the schemes. The exporter has also an option to terminate the contract at the expiry of the third year, by giving three months advance notice.

Cover under the schemes is available for payments specified in US Dollar, Pound Sterling, Deutsche Mark, Japanese Yen, French Franc, Swiss Franc, UAE Dirham and Australian Dollar. However, cover can be extended for payments specified in other convertible currencies at the discretion of the ECGC.

Exchange Fluctuation Risk Cover will normally be provided along with suitable credit insurance cover. There is, however, provision to grant the cover independently also in which case premium will be loaded by 20%.

The contract cover provides a franchise for 2 percent loss or gain within a range of 2 per cent of the reference rate to the exporter’s account. If loss exceeds 2 per cent, ECGC will make good the portion of loss in excess of 2 per
cent but not exceed 35 per cent of the reference rate. In other worlds, loss upto 2 percent and beyond 35 percent of the reference rate, the portion which is beyond 2 per cent and upto 35 per cent will be turned over to the ECGC.

The rate of premium is 40 paise per Rs. 1000 per year or 10 paise per Rs. 100 per quarter for the bid cover and the total premium is payable at the tiem of issue of the policy.

Premium for contract cover is also payable it the rate of 40 paise per Rs. 100 per annum. Ten per cent of the total premium payable and premium for the first two years should be paid at the time of issue of the policy. Thereafter the annual premium will have to be paid in such a manner that premium for the next two years is always kept paid to the corporation.³

**Standard Policies and Transfer Guarantees:**

There were 1341 policies including Transfer Guarantee in force at the end of 2001-02 recording a negative growth of 0.52 per cent over the previous year compared with a negative growth of 4.24 percent in 2000-01. During the year 2001-02, corporation introduced short-term specific shipment policies to rope in those exporters who were reluctant to offer all their exports for cover on a whole turn over basis. However, the corporation’s share of exports covered in the total short term exports of the country slipped further by almost one percent to 11.32 percent (12.23 percent) as at the close of 2001-02 underlining the increasing share of exports like diamonds and software exports in the total exports of the country. Premium income earned during the year was Rs. 102.02 crores as against Rs. 96.72 crores in the year 2000-01, registering a growth of 14.4 percent over the previous year. Major markets for Indian short-term exports were USA, UK, Germany, Italy, UAE, France, Singapore, Hongkong and Canada. The first three alone accounting for 42.54 percent of total exports covered under standard policies by the corporation.
Four commodities, viz. engineering goods, basic chemicals and pharmaceuticals, readymade garments and leather constituted almost 60 percent of the exports covered under short term policies.

Claims paid during the year 2001-02 amounted to Rs. 34.08 crore as against Rs. 30.57 crore in the year 2000-01, recording a growth of 11.48 percent over the previous year. Recoveries made during the year were Rs. 2.27 crore compared with Rs. 6.47 crore in 2000-01. During the year there were no transfer delay claims as in the previous years. The commercial claims arose mainly in respect of shipments to Germany, France, USA and UAE.

**Buyer understanding**

At the close of March 2002, the corporation had information on about 1,65,512 buyers on its record as compared with 1,911,88 buyers as at the close of the previous year. Information on buyers on record is being updated on a regular basis.

**Short term Guarantee business**

Total business advances covered under short-term guarantees during the year was Rs. 1,57,274 crore compared with Rs. 1,58,962 crore in the previous year registering a negative growth of 1.06 percent.

Premium received was Rs. 224.97 crore as against Rs. 218.63 corers received in the previous year, registering a growth of 2.9 per cent. Claims paid in 2001-0 were Rs. 440.11 crore compared with Rs. 142.25 crore in 200-01 registering remarkable increase of almost 209.40 per cent over the previous year. Amount recovered in respect of claims paid amounted to Rs. 23.89 crore as against Rs. 12.20 crore in the previous year, registering an increase of 95.82 per cent over the previous year. The deficit in this sector of business in 2001-02 was Rs. 191.25 crore in the previous year.
Medium and Long Term Policy Business

The value of risks covered under medium and long-term policies (including overseas investment insurance) slipped from Rs. 574.04 crore in 2000-01 to Rs. 259.90 crore recording a negative growth of 37.3 percent. Premium earned during the year was Rs. 6.76 crore compared with Rs. 8.70 crore in the previous year, registering a negative growth of 22.28 per cent.

No claims were paid or recoveries made under medium and long term policies during the year compared with Rs. 5.62 corers of claims and Rs. 3.11 crore of recoveries in the previous year. The net surplus generated in this sector during the year was thus Rs. 6.76 crore compared with Rs. 6.19 crore during the previous year.

Medium and Long term Guarantee Business

The value of risks covered under medium and long-term guarantees in 2001-02 was Rs. 744.03 crore compared with Rs. 322.52 crore in 2000-01 recording a robust growth of 130.69 percent. However, premium income registered a negative growth of 9.70 percent from 6.39 crore to Rs. 5.77 crore over the same period. Claims paid were Rs. 12.93 crore during the year 2001-02 compared with Rs 34.05 crore in the previous year under this sector. An amount of just Rs. 0.60 crore (nil) was recovered during the year in respect of claims paid in the past, registering a deficit of Rs. 6.56 crore for the year compared with the deficit of Rs. 27.66 crore in the previous year, under this sector.

Total Premium Income, Claims and Recoveries

As in the previous years, the main contribution to the total premium income of Rs. 338.52 crore was from the short term guarantee business with 66.46 share (66.16 P.C.) as against its share of 90.35 (66.94% percent) in the total amount of total claims paid during the year. Short-term policy sector contributed 29.84 (29.27) percent of the total premium income while accounting for just 7 (14.38) percent of the total claims paid.
The short-term sector business thus contributed for 96.30 (95.43) percent of the total premium income of the corporation and accounted for 97.35 (81.32) percent of the total claims paid during the year. The medium and long term sector comprising policies and guarantees contribute a very modest 3.7 (4.57) percent of the total premium income with share of 2.65 (18.67) percent of the total claims payments.

During the year, a total sum of Rs. 26.76 crore was recovered as compared to Rs. 21.78 crore in 2000-01. A recovery provision of Rs. 62.60 crore has been made as on 31.03.2002 consisting of Rs. 2.69 crore for short term policies, Rs. 76.45 crore for short term policies, Rs. 13.4 crore for medium and long term policies and Rs. 0.2 crore for medium and long term guarantees.

An amount of Rs. 1.62 crore was recovered during the year from Angola in respect of transfer delay claims paid in the past under short term policies. The balance amount outstanding on account of blocked funds in respect of transfer delay claims paid stood at Rs. 568.56 crore as on 31.03.2002, of which a sum of Rs. 109.35 crore was in respect of claims paid under short term covers and Rs. 459.21 crore in respect of medium and long term covers.

Recognizing the dynamics of International Trade, Exim Bank of India has been responding to changing national and global environment. Exim bank has over the years re-oriented its strategies to cater not only to the financing needs of exporters and importers and helping Indian Companies cater export capabilities but also in supporting them in their efforts to globalize their business. Over the years the Bank has developed a unique range of financing products and services for promoting India’s International Trade.
Table – 3  
Liabilities and Assets of Exim Bank

(Rs. in million)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Paid up capital</td>
<td>6500</td>
<td>6500</td>
</tr>
<tr>
<td>2. Reserves</td>
<td>13170</td>
<td>12026</td>
</tr>
<tr>
<td>3. Borrowings from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Government</td>
<td>107</td>
<td>123</td>
</tr>
<tr>
<td>(ii) RBI-NIC (LTO)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>(iii) Foreign Currency</td>
<td>16359</td>
<td>16496</td>
</tr>
<tr>
<td>4. Deposits</td>
<td>9120</td>
<td>3416</td>
</tr>
<tr>
<td>5. Others</td>
<td>77933</td>
<td>44172</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>123189</strong></td>
<td><strong>82733</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>B. ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Cash and Liquid Resources</td>
<td>12705</td>
<td>2995</td>
</tr>
<tr>
<td>2. Investments</td>
<td>16411</td>
<td>7762</td>
</tr>
<tr>
<td>3. Loans and Advances</td>
<td>86886</td>
<td>66103</td>
</tr>
<tr>
<td>4. Bills Purchased, Discounted</td>
<td>850</td>
<td>2157</td>
</tr>
<tr>
<td>5. Others</td>
<td>6337</td>
<td>3716</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>123189</strong></td>
<td><strong>82733</strong></td>
</tr>
</tbody>
</table>

**Source:** Annual Report 2002-2003, (Exim Bank)
Table – 4

Income and Expenditure Account of Exim Bank

(Rs. in million)

<table>
<thead>
<tr>
<th>A. Expenditure</th>
<th>During year ended March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>1. Payment of Interest</td>
<td>4903</td>
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<tr>
<td>2. Other Expenditure</td>
<td>406</td>
</tr>
<tr>
<td>3. Tax</td>
<td>620</td>
</tr>
<tr>
<td>4. Profit after Tax</td>
<td>2066</td>
</tr>
<tr>
<td>Total</td>
<td>7995</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest on Loans</td>
<td>6930</td>
</tr>
<tr>
<td>2. Exchange commission etc.</td>
<td>644</td>
</tr>
<tr>
<td>3. Others</td>
<td>421</td>
</tr>
<tr>
<td>Total</td>
<td>7995</td>
</tr>
</tbody>
</table>

Source: Annual Report 2002-2003, Exim Bank

Conclusion:

The Export Import Bank (Exim Bank) of India is a public sector Financial Institution created by an Act of Parliament – ‘The Export Import Bank of India, Act, 1981’. It started its operations in Mach, 1982. It is the principal financial institution for coordinating the working of institutions engaged in financing export and import. Prior to this, a number of institutions were engaged in financing the export transactions; like the Industrial Development Bank of India (IDBI), the Reserve Bank of India (RBI), and the Export Credit and Guarantee Corporation (ECGC). These institutions provided
finance for both the long term and short-term needs of exporters and covered various types of risks.

The system, however, suffered from various deficiencies; mainly the problems emanating from a multiplicity of agencies performing similar functions and lack of coordination among them. Exporters were also deprived of export advice, market studies, quicker and competitive finance, information, etc. It was with this background that the Exim Bank came into existence.

There are apex institutions in the country, which deal with major economic activities, viz. industry agriculture and foreign trade. The Industrial loans; the National Bank for Agricultural loans, and the Exm Bank extend term loans for foreign trade. All these institutions are wholesale banks. They, therefore work closely with commercial banks and other state level financial institutions that operate the retail banking system in the country.

Exim Bank provides a range of analytical information and export-related services. The Bank's fee based services help identify new business propositions, source trade and investment related information, create and enhance presence through joint network of institutional linkages across the globe, and assists externally oriented companies in their quest for excellence and globalization. Services include search for overseas partners, identification of technology suppliers, negotiating alliances, and development of joint ventures in India and abroad. The Bank also supports Indian project exporters and consultants to participate in projects funded by multilateral agencies.

Exim Bank encourages Indian consultants to gain and enhance their international exposure by assisting them in securing assignments overseas assignments are awarded under program sponsored by International Finance Corporation (IFC) in Washington to promote private sector development in select countries and regions. Arrangements set in place cover:

- Africa Project Development Facility
- African Management Services Company
- Africa Enterprise Fund
• South-east Europe Enterprise Development Facility
• Mekong Project Development Facility
• Business Advisory and Technical Assistance services (BATAS)
• Other Technical Assistance & Trust Funds

Exim Bank assists these agencies in the recruitment of Indian consultants and meets the professional fees of the consultant selected by IFC. Consultancy assignments undertaken comprise pre-feasibility studies, project and investment related services, management information systems, operations and maintenance support mainly for SMEs in a variety of sectors like agriculture, agro-industry, consumer goods, light engineering telecom.

**Exim Bank’s Financial Performance**

Bank’s paid-up capital and reserves stood at Rs. 6500 million and Rs. 1317 million respectively as at end of March 2003. Exim Bank’s borrowings from Government of India stood at Rs. 120 million as at the end of March 2002. Foreign currency borrowing by the bank was Rs. 16500 million while deposits mobilized amounted to Rs. 3140 million. Assets of Exim Bank as on March 31, 2003 aggregated Rs. 82733 million including loans and advances of Rs. 66102 million and investment Rs. 7762 million.

During 2002-03, Exim Bank’s total income grew by 17 percent to Rs. 7995 million. Income by way of interest at Rs. 6930 million formed 87 percent of the total income.

Following withdrawal of Tax exemption status of Exim Bank with effect from April 1, 2002. Bank paid an advance tax of Rs. 620 million during the year resulting in profit after tax of Rs. 2066 million. During the year bank paid dividend of Rs. 450 million (Rs. 420 million in previous year) to the Government.

**References:**
1. www.eximindia.com
2. Exim Bank’s journal on objectives, operations and organisation
5. Exim Bank’s Annual Report, op.cit.
6. Ibid.
7. Ibid.
8. Ibid.
11. Journal, ‘ECGC Services’ p. 41
12. ECGC’s Forty fourth, Annual Report 2001-02
Chapter – 4

PERFORMANCE APPRAISAL OF “EXPORT CREDIT INSTITUTIONS” IN INDIA

Performance of Export Import Bank of India

Before 1982 there were Commercial Banks and Industrial Development Bank which were financing those traders who were in Export Import trade. But there was no particular bank which provided various facilities of finance and consultancy services to the Exporters and Importers. The Government’s decision to set up the bank was announced by the then Finance Minister Mr. Venkataraman while presenting the budget for the current fiscal year. In January 1982 Exim Bank was set up to take over the operation of International Financial and consultancy assistance to exporters and importers and to function as principal Financial Institution for coordinating the work of other institutions engaged in financing of export and import of goods and services.

Performance of Exim Bank can be studied in two aspects:

(i) A study of its resources, profit (earning) and dividend scenario from 1982 to 1990-91 Pre liberalization
   1991 to 2003 Post liberalization
(ii) An analysis of the bank’s financial statements from 1982 onwards

Resources

Bank’s resources constitutes its: Paid up capital, Reserves, Notes, Bonds and Debentures, Deposits and other Borrowings.

The paid up capital of the Exim Bank is wholly subscribed by the Central Government. The bank can raise additional resources through borrowing from:

   Government of India, Reserve Bank of India and Market through the issue of Bonds, Certificates of deposit and Commercial paper.
It can borrow foreign currency loans from international financial institutions like– World Bank, IMF, Asian Development Bank, African Development Bank etc.

The resources of the bank over the period 1982-91 --- 2003 has been shown in Table –1A and 1B.

The total resources of the bank has increased from Rs. 3559 million in 1982 to Rs. 123189 million in 2002-03 which is nearly a 34.5 times increase. It can be studied from the table 1A that the main source of the funds for the bank is the issue of bonds and debentures. The bank fetched Rs. 530 million in 1983 by issuing bonds and in 2002-03 the bank fetched Rs. 64902 million. Which is nearly a 122.5 times increase. The second important source is the other borrowings which contributed Rs. 2592 million in 1982 and Rs. 16467 million in 2002-03 registered an increase of 6 times.

Table 1B shows that bank’s paid up capital which has increased from Rs. 2962 million in 1991-92 to Rs. 6500 million in 2002-03 which is nearly 2.2 times increase. Reserves have increased many folds from Rs. 53 million in 1982 to Rs. 13171 million in 2002-03. The bank issued various bonds and debentures of Rs. 530 million in 1983 to Rs. 64902 million in 2002-03. Total resources of the bank have increased from Rs. 3559 million in 1982 to Rs. 123189 million in 2002-03. Table further reveals that the other borrowings of the bank have been dominating shares in terms of paid up Capital and Reserves.
Table – 1A

Exim Bank’s Financial Resources (During 1982 to 1990-91)

(Rs. in Million)

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</tr>
</thead>
<tbody>
<tr>
<td>Paid Capital</td>
<td>750</td>
<td>1000</td>
<td>1275</td>
<td>1475</td>
<td>1725</td>
<td>1945</td>
<td>2205</td>
<td>2338</td>
<td>2568</td>
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<tr>
<td>Reserves</td>
<td>53</td>
<td>121</td>
<td>211</td>
<td>325</td>
<td>444</td>
<td>583</td>
<td>796</td>
<td>989</td>
<td>1204</td>
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<tr>
<td>Bonds</td>
<td>-</td>
<td>530</td>
<td>530</td>
<td>780</td>
<td>1175</td>
<td>1610</td>
<td>2620</td>
<td>3200</td>
<td>3840</td>
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<tr>
<td>Other borrowings</td>
<td>2592</td>
<td>3486</td>
<td>4338</td>
<td>5090</td>
<td>6235</td>
<td>6992</td>
<td>7681</td>
<td>8614</td>
<td>9538</td>
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<td>Total Resources</td>
<td>3559</td>
<td>5369</td>
<td>6691</td>
<td>8163</td>
<td>10474</td>
<td>12812</td>
<td>14840</td>
<td>17243</td>
<td>19943</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 1990-91 of Exim Bank

Profitability of Exim Bank

The profitability position of the bank over the period 1982-2003 has been shown in Table – 2A and 2B. It can be depicted from the Tables that the Profit before Tax (PBT) has been increasing since 1982 till 1998-99. It declined in 1999-2000 and 2000-01 and there is increasing trend in 2001-02 and 2002-03. The profit after tax (PAT) has been Rs. 2066 million in 2002-03 as compared to Rs. 376 million in 1991-92. There has been an increase of Rs. 1690 million. The net profit of the bank since 1982 to 1990-91 had not been taxed. It is considered that it had been beyond the preview of Taxation. Till 1997-98 profit after (PAT) and profit before tax (PBT) are matching which indicate that the tax has been charged at the rate of 50 percent per annum. Profit before tax in 2002-03 has been Rs. 2.69 billion as compared to previous year Rs. 2.21 billion. There has been an increase of Rs. 0.48 billion. The dividend of the bank has increased from Rs. 100 million in 1991-92 to Rs. 450 million in 2002-03 registering an increase of 4.5 times.
Table – 1B

Exim Bank’s Financial Resources (During 1991-92 to 2002-03)

(Rs. in Million)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Paid Capital</td>
<td>2962</td>
<td>3356</td>
<td>3574</td>
<td>4403</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
<td>5500</td>
<td>5500</td>
<td>6500</td>
<td>6500</td>
</tr>
<tr>
<td>Reserves</td>
<td>1475</td>
<td>1819</td>
<td>2261</td>
<td>3119</td>
<td>3997</td>
<td>5445</td>
<td>7058</td>
<td>8352</td>
<td>9584</td>
<td>10664</td>
<td>12026</td>
<td>13171</td>
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<tr>
<td>Notes, Bonds &amp;</td>
<td>4540</td>
<td>5240</td>
<td>6498</td>
<td>6440</td>
<td>8861</td>
<td>9165</td>
<td>8267</td>
<td>12850</td>
<td>20944</td>
<td>22915</td>
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<td>64902</td>
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<td>Debentures</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
<td>-</td>
<td>1504</td>
<td>1620</td>
<td>1404</td>
<td>660</td>
<td>371</td>
<td>104</td>
<td>2617</td>
<td>2797</td>
<td>3416</td>
<td>9121</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>11198</td>
<td>11034</td>
<td>10827</td>
<td>14431</td>
<td>13346</td>
<td>20352</td>
<td>21808</td>
<td>21285</td>
<td>20354</td>
<td>20551</td>
<td>16619</td>
<td>16467</td>
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<tr>
<td>Total resources</td>
<td>24679</td>
<td>26935</td>
<td>28916</td>
<td>36067</td>
<td>39694</td>
<td>49329</td>
<td>51201</td>
<td>56665</td>
<td>70264</td>
<td>73981</td>
<td>82734</td>
<td>123189</td>
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</tbody>
</table>

Source: Compiled from Annual Report 2002-2003 of Exim Bank
The Annual Average Growth of the PBT for the past decade (1993-2003) comes to 20 percent. The annual average growth of the dividend for the above said period comes to 16 percent. In 2002-2003 the bank paid Rs. 450 million as dividend and profit after tax was Rs. 2066 million. In percentage term the bank paid 45.9 percent dividend.

Table – 2 A

Exim Bank’s Profitability (During 1982 to 1990-91)

(Rs. in Million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>63</td>
<td>88</td>
<td>120</td>
<td>154</td>
<td>170</td>
<td>199</td>
<td>284</td>
<td>272</td>
<td>308</td>
</tr>
<tr>
<td>Dividend</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
<td>50</td>
<td>60</td>
<td>70</td>
<td>80</td>
<td>90</td>
</tr>
</tbody>
</table>


The total financing of Exim Bank is divided into four major groups, these are:

(i) Indian Exporters/companies,
(ii) Foreign Institutions,
(iii) Commercial Banks, and
(iv) Others

Sanctions and disbursements of the Exim Bank listed in various tables and graphs are to be taken as amounts sanctioned and disbursed to all the above four groups viz., Indian Exporters, Foreign Institutions, Commercial Banks and others under various programs of the Exim Bank.

The various programs of the bank for Indian Exporters are:

Post-shipment supplier’s credit, Pre-shipment credit, Investment loan to EOU's, Export Marketing Fund, Production Equipment Finance, Export Vendor Development Finance, Bulk Import Finance, Export Product Development Program and Foreign Currency Pre-shipment Finance.
Table - 2A, Exim Bank’s Profit and Dividend (During 1982 to 1990-91)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit</th>
<th>Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>63</td>
<td>10</td>
</tr>
<tr>
<td>1983</td>
<td>88</td>
<td>20</td>
</tr>
<tr>
<td>1984</td>
<td>120</td>
<td>30</td>
</tr>
<tr>
<td>1985</td>
<td>154</td>
<td>40</td>
</tr>
<tr>
<td>1986</td>
<td>170</td>
<td>50</td>
</tr>
<tr>
<td>1987</td>
<td>199</td>
<td>60</td>
</tr>
<tr>
<td>1988</td>
<td>284</td>
<td>70</td>
</tr>
<tr>
<td>1989-90</td>
<td>272</td>
<td>80</td>
</tr>
<tr>
<td>1990-91</td>
<td>308</td>
<td>90</td>
</tr>
</tbody>
</table>
Table – 2 B
Exim Bank’s Profitability (1991-92 to 2002-03 Post-Liberalisation Period)

(Rs. in Million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Before Tax (PBT)</td>
<td>376</td>
<td>467</td>
<td>580</td>
<td>788</td>
<td>1100</td>
<td>1516</td>
<td>2017</td>
<td>2400</td>
<td>2273</td>
<td>2047</td>
<td>2212</td>
<td>2686</td>
</tr>
<tr>
<td>Profit After Tax (PAT)</td>
<td>376</td>
<td>467</td>
<td>580</td>
<td>788</td>
<td>1100</td>
<td>1516</td>
<td>2017</td>
<td>1650</td>
<td>1651</td>
<td>1541</td>
<td>1712</td>
<td>2066</td>
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<tr>
<td>Dividend</td>
<td>100</td>
<td>120</td>
<td>140</td>
<td>160</td>
<td>200</td>
<td>310</td>
<td>410</td>
<td>330</td>
<td>350</td>
<td>380</td>
<td>420</td>
<td>450</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 2002-03 of Exim Bank
Programs for Commercial Banks include amount sanctioned and disbursed for:
Export bill rediscounting, Small scale industry export bills discounting and Refinance of exports (supplier’s credit)

Programs for foreign institutions cover, amount sanctioned and disbursed for:
Lines of credit, and Buyer’s credit

The total amount of loans sanctioned and disbursed by the Exim Bank since its inception (1982) to the end of March 2003 to all the four groups was Rs. 317887 million and Rs. 240550 million. Amount sanctioned during 2002-2003 was Rs. 78283 million, representing 24.6 per cent of the total loans sanctioned till date. Amount disbursed during 2002-03 was Rs. 53203 million, representing 22.1 per cent of the total amount disbursed over the years by the bank.

Loans Sanctioned and Disbursed-Region wise:

Exim Bank promotes Indian exports through a range and variety of lending programs. This encompasses direct financial assistance to exporters at Pre-shipment stage. Term finance for export oriented units (EOUs) Overseas Investment Finance, a lending program for export product development. Term Finance for:

Export Production, Finance for computer software exports, Finance for export marketing, Buyer's credit, Lines of credit to banks and institutions overseas, Export bills rediscounting, Refinance and bulk import finance to commercial banks.

Exim Bank also extends non funded facility to Indian exporters in the form of the guarantees. Bank now offers a diversified range of lending programs. These cover various stages of the export cycle, i.e.

Research and product development,
Pre-shipment finance,
Market loan for capacity up gradation,
Production loans,
Post-shipment credit.
The current focus of the bank is to promote export of industrial and consumer durable, project exports. Exports technology services, Export of computer software. These together constitute the expanding base of non-traditional exports from India. Table 3 presents that – Out of sanctions for funded assistance during the period 1990-91, the largest shares were for exports to West Asia [24%], South Asia [24%], followed by North Africa [21%], South East Asia/Far East and Pacific [15%] and Europe [12%]. Where as during the period 1993-2003 the largest shares were for exports to West Asia [39%], America [13%], Europe & CIS [12%], SE Asia [12%], South Asia [6%], North Africa [2%] as is depicted in the Table 3 – Regional Distribution of loans sanctioned and disbursed.

**Table – 3**

**Exim Bank’s Regional Distribution of Loans Sanctioned and Disbursed**

(Rs. in million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sanctions</td>
<td>Disbursement</td>
</tr>
<tr>
<td>West Asia</td>
<td>949</td>
<td>2097</td>
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<tr>
<td>South Asia</td>
<td>942</td>
<td>475</td>
</tr>
<tr>
<td>SE Asia Far East</td>
<td>632</td>
<td>395</td>
</tr>
<tr>
<td>North Africa</td>
<td>862</td>
<td>396</td>
</tr>
<tr>
<td>Sub Saharan Africa</td>
<td>24</td>
<td>395</td>
</tr>
<tr>
<td>Europe and CIS</td>
<td>465</td>
<td>-</td>
</tr>
<tr>
<td>Americas</td>
<td>83</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>3957</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Compiled from various Annual Reports of Exim Bank.*
Export Contracts

During the year 2002-03 contracts amounting to Rs. 65.31 bn. Were secured by Indian exporters with Exim Bank’s support as against contracts worth Rs. 41.62 bn. Secured by Indian exporters during the previous year (2001-02). Exim Bank/Working group accords clearance to such export contracts. During the year with the support of Exim Bank the contracts secured consisted of Twenty Five Turnkey contracts valued at Rs. 31.22 bn. Seventeen construction contracts valued at Rs. 16.96 bn., Fifty Five supply contracts valued at Rs. 14.47 bn and Thirteen Consultancy contracts valued at Rs. 2.66 bn. Some major turnkey contracts secured during the year included power projects in Iraq, Oman and Tanzania, Transmission line Projects in Algeria, Bangladesh, Brazil, Ethiopia, Tunisia and UAE. Gas development project in Tanzania, sulfur recovery project in Kuwait, and construction of chilled water plant in UAE. Construction contracts included crude oil pipeline project in Turkey and Qatar, Dams in Saudi Arabia, Training Institute in Kuwait, Gas Transmission Pipeline in Indonesia, Cyber Towers in Mauritius, Micro Tunneling work in Kuwait, Residential Complex in UAE, and Hotel in Afghanistan. Major supply contracts secured during the year include export of Saw pipes to Egypt, Indonesia and Iraq, Active Pharmaceutical ingredients and bulk drugs to USA, Europe, and Sri Lanka, LPG cylinders to Iraq, Alloy wheels to Belgium; Buses to Dominican Republic; Grains to UAE and UK; Cold rolled coils to Nepal, China and UAE, Books and stationary to USA and Specialty chemicals to Singapore and Switzerland. The largest value of contracts worth Rs. 81.55 bn in 1987 followed by contracts worth Rs. 68.90 bn in 1882 were secured with Exim Bank’s support. Contracts secured during 1991-2003 with the support of Exim Bank registering Annual average growth of 18 percent. Table No. 4A and 4B presents Bids approved and contract secured with Exim Bank’s support during the period 1982-1991 i.e. pre-liberalization to 1991-2003, i.e. post-liberalization. It will be observed from table 4A that the contracts secured in 1987 were the highest
ever in value followed by the contracts secured in 1982 and 2002-03 with the Exim Bank’s support. During 2002-03. Contracts amounting to Rs. 65.31 bn were secured as against contracts worth Rs. 41.62 bn during the previous year.

Table – 4A

| Bids Approved and Contracts Secured by Exim Bank (During 1982-1991) |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Export contract     | 68900               | 42109               | 41730               | 40420               | 15390               | 81550               | 53870               | 36430               | 35100               | 415499              |
| secured             |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |


Table – 4B

| Bids Approved and Contracts Secured by Exim Bank (During 1991-92 to 2002-03) |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                     | 91-92               | 92-93               | 93-94               | 94-95               | 95-96               | 96-97               | 97-98               | 98-99               | 99-00               | 00-01               | 01-02               | 02-03               | Cumulative | Annual Avg Growth |
| Export contract     | 1087                | 12655               | 16769               | 17030               | 16030               | 23196               | 18946               | 33068               | 34440               | 18331               | 41620               | 65310               | 3082272 | 18               |
| Secured             |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |

Source: Compiled from various Annual Reports of Exim Bank

Bank’s total lending over the 80s onward have been given in Table 5A and 5 B

Between 1982 and 2002-03 loans sanctioned increased nearly 26th fold from Rs. 2199 million in 1982 to Rs. 56443 mn in 2002-03. Guarantees issued in the same period increased nearly 3 fold from Rs. 3986 million to 10740 million. Bank’s total lending in 1990-91 were Rs. 19337 million as compared with Rs. 6185 mn in 1982 recording a growth of nearly 3.5 times for the period. Where as total lending of the bank in 2002-03 were Rs. 67183 million as against Rs. 28303 mn in 1991-92 registering a growth of nearly 2.5 times. It is depicted from the table and graph that amount of loans sanctioned has shown a very strong increasing trend.
Table - 4A, Exim Bank - secured Export contract (During 1982-83 to 1990-91)

- Export contract secured

Year | Rs. in Millions
--- | ---
1982 | 68900
1983 | 42109
1984 | 41730
1985 | 40420
1986 | 15390
1987 | 81550
1988 | 53870
1989-90 | 36430
1990-91 | 35100
Table - 4B, Exim Bank -Secured, Export Contract (During 1991-92 to 2002-03)

Export contract secured

Year | Rs. in Millions
--- | ---
1991-92 | 1087
1992-93 | 12655
1993-94 | 16769
1994-95 | 17030
1995-96 | 16030
1996-97 | 23196
1997-98 | 18946
1998-99 | 33068
1999-2000 | 34440
2000-01 | 18331
2001-02 | 41620
2002-03 | 65310
Table – 5A

Exim-Bank’s Total Lending – (During 1982 to 1990-91) (Rs. in million)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>BIDS</td>
<td>68900</td>
<td>42109</td>
<td>41730</td>
<td>40420</td>
<td>15390</td>
<td>81550</td>
<td>53870</td>
<td>36430</td>
<td>35100</td>
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<td>Loans</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>(Funded)</td>
<td>2199</td>
<td>2930</td>
<td>4147</td>
<td>5544</td>
<td>6438</td>
<td>7232</td>
<td>9347</td>
<td>11178</td>
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<td>Guarantees</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Non-funded)</td>
<td>3986</td>
<td>4515</td>
<td>5102</td>
<td>4661</td>
<td>5290</td>
<td>4844</td>
<td>5373</td>
<td>5969</td>
<td>6183</td>
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<tr>
<td>Total</td>
<td>6185</td>
<td>7445</td>
<td>9249</td>
<td>10205</td>
<td>11728</td>
<td>12076</td>
<td>14720</td>
<td>17147</td>
<td>19337</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 1990-91 of Exim Bank

Table 6 A and 6B presents Financial statement - Assets and liabilities of the Exim Bank for the period 1982-2002. It is prepared with various assets and liabilities of the Bank. The total assets and liabilities of the bank were Rs. 359 crore in 1982, Rs. 2020 crore in 1991 and Rs. 8303 crore in 2002, representing 23 times increase over the years.
Table - 5A, Exim Bank's Total Lending (During 1982 to 1990-91)

- Loan (Funded)
- Guarantee (Non-funded)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan (Funded)</th>
<th>Guarantee (Non-funded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>2199</td>
<td>3986</td>
</tr>
<tr>
<td>1983</td>
<td>2930</td>
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<td>1985</td>
<td>4661</td>
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<td>1986</td>
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<td>6438</td>
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<td>1987</td>
<td>7232</td>
<td>4844</td>
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<td>1988-89</td>
<td>9347</td>
<td>5373</td>
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<td>1989-90</td>
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<td>5969</td>
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<td>1990-91</td>
<td>13154</td>
<td>6183</td>
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</table>
Table – 5B
Exim-Bank’s Total Lending – (During 1991-92 to 2001-02)
(Rs. in million)

<table>
<thead>
<tr>
<th></th>
<th>91-92</th>
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<th>93-94</th>
<th>94-95</th>
<th>95-96</th>
<th>96-97</th>
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<th>98-99</th>
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<tr>
<td>Export BIDS</td>
<td>71870</td>
<td>86370</td>
<td>144590</td>
<td>95880</td>
<td>72000</td>
<td>93219</td>
<td>121741</td>
<td>160826</td>
<td>160643</td>
<td>42880</td>
</tr>
<tr>
<td>(A) Loans (Funded)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(A) Loans</td>
<td>16161</td>
<td>18419</td>
<td>20337</td>
<td>25961</td>
<td>29302</td>
<td>34513</td>
<td>38245</td>
<td>42641</td>
<td>50833</td>
<td>56443</td>
</tr>
<tr>
<td>(B)Guarantees (Non Funded)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(B)Guarantees</td>
<td>12142</td>
<td>12134</td>
<td>7517</td>
<td>6836</td>
<td>9081</td>
<td>10215</td>
<td>12094</td>
<td>10553</td>
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<td>10740</td>
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<tr>
<td>Total (A+B)</td>
<td>28303</td>
<td>30553</td>
<td>27854</td>
<td>32797</td>
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<td>44728</td>
<td>50342</td>
<td>53194</td>
<td>61980</td>
<td>67183</td>
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**Source:** Compiled from various Annual Reports of Exim Bank.
Table -5B, Exim Bank's Total Lending  (During 1991-92 to 2002-03)

- Loans
- Guarantees

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Liabilities and Assets of Exim Bank
(Financial Statement 1982-2002)

(Rupees in Crore)

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Source: Compiled from various Reports of Exim Bank
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Source: Compiled from various Reports of Export Import Bank of India
Performance of Export Credit Guarantee Corporation of India (ECGC) During 1982 – 2002

ECGC has played quite a prominent role in promoting exports. With the backing of the ECGC's insurance policy, exporters can offer credit terms to match the terms offered by their competitors in other countries. Insurance policies and guarantees of the Corporation assist the exporters to obtain more finance from banks leading to greater exports. It must be appreciated that certain commodities have improved their exports mainly because insurance cover is available for selling goods on credit terms.

Most of our commodities which were mainly being sold only in the European and USA markets are now being sold all over the world. Corporation is very keen to help Indian exporters to have their foothold in African markets. Most of the countries in Africa suffer from acute foreign exchange deficiency. The Corporation has even proposed to help a few African nations in raising funds from international markets to give boost to Indian exports to these countries. The Corporation has sought permission of the RBI to negotiate with the Central banks of these African countries. Our purpose is that Indian banks operating abroad could raise funds on behalf of these African countries against the guarantees of the ECGC.

The Export Credit Guarantee Corporation (ECGC) is operating in two separate segments of business:

(a) Provision of insurance and guarantee covers for exports which take place on short term credit and

(b) Provision of similar covers for exports of capital goods, industrial turnkey jobs, civil construction works, large service contracts, etc. for which medium or long term credits are granted.

The former segment of business is steady in volume and comprises a very large number of relatively small-value transactions spread over a large number of countries.
Table 7A shows that the corporation achieved a growth of 23.7 percent in the total value of business covered during 1980s. The annual average coverage to total short term exports comes to 15.2 percent during 80s. Corporation’s cover during 1989-90 recorded a growth of 48.87 percent the highest in the decade. Whereas it was a negative growth of 2.27 percent during 1983-84.

Table –7B presents coverage of ECGC to total exports. During the period 1992 to 2002 the corporation extended its average annual cover to 15.5 to total export. The largest cover however, provided in 1991-92 which is recorded at 21 percent of the exports in that year. The average annual growth which works at 25.34 percent was recorded during 1995-96. However, it was negative growth of 2.96 percent during 2001-02. Moreover, ignoring the period of 1993-94, 1997-98 and 2001-02, the coverage of the corporation to total exports shows an increasing trend.
Table – 7A

India’s Export and ECGC Coverage (During 1982-83 to 1991-92)

(Rs. in Crore)

<table>
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<tr>
<th>Year</th>
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<th>%ge of ECGC Cover to total export</th>
<th>Growth %</th>
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Source: Compiled from Annual Report 1992-93 of ECGC

Table – 7B

India’s Export and ECGC Coverage (During 1992-93 to 2001-02)

(Rs. in Crore)

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<th>%ge of ECGC Coverage to total export</th>
<th>Avg. Annual Growth Percent</th>
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Source: Compiled from Annual Report 2001-02 of ECGC
Table 7A, India's Export and ECGC coverage (During 1982 to 1991-92)

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</table>
Over the years (1957-1991)

Table 8A views total premium earned by the corporation from its inception in the year 1957 to the end of the Financial year 1990-91. It was amounted to Rs.304.39 crore during the period. Gross claims paid during the same period amounted to Rs. 507.24 crore. After taking into account the recovery of Rs. 76.42 crore effected during the period, the net claims paid by the corporation amounted to Rs. 430.82 crore. Net claims paid thus exceeded premium income by Rs. 126.43 crore.1

Table 8B presents total premium earned by the corporation from 1991 to the end of financial year 2001-02. It was amounted to Rs. 2476.84 crore during the period. Gross claims paid during the same period amounted to Rs. 2246.34 crore. After taking into account the recovery of Rs. 320.59 crore effected during the period, the net claims paid by the corporation amounted to Rs. 1925.75 crore. Premium income thus exceeded net claims paid by Rs. 551.09 crore.

| Table – 8A |
| ECGC over the years 1957 to 1990-1991 |

| Premium Income | 304.39 |
| Claim Paid | 507.24 |
| Recoveries made | 76.42 |

Source: Compiled from Annual Report 1992-93 of ECGC.

Table 9, reveals the performance of the ECGC during the 1991-92 to 2001-02. Business covered during the period was of the value of Rs. 1481553 crore. Total income from the premium of the Corporation was Rs. 2476.84 crore. Premium income of the Corporation in 2001-02 was Rs. 338.52 crore, whereas it was Rs. 89.51 crore in 1991-92. It registered a significant growth of 278 percent over 1991-92. The total claims paid during 1991-92 to 2001-02 were Rs. 2246.34 crore. Corporation paid claims of the value of Rs. 487.12 in 2001-02 where as it paid claims of Rs. 105.35 in 1991-92 to 2001-02 were Rs. 320.59 crore.
Table - 8B, ECGC- Total Premium Income, Claims Paid & Recoveries made (During 1991-92 to 2001-02)

- **Premium Income**: Rs. 2476.84 crore
- **Claims Paid**: Rs. 2246.34 crore
- **Recoveries made**: Rs. 320.59 crore
Table – 8B
ECGC during 1991-2002
(Rs. in Crore)

<table>
<thead>
<tr>
<th>Premium Income</th>
<th>2476.84</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claim Paid</td>
<td>2246.34</td>
</tr>
<tr>
<td>Recoveries made</td>
<td>320.59</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 2001-02 of ECGC

Table – 9
Performance of ECGC (During 1991-92 to 2001-02)
(Rs. in Crore)

<table>
<thead>
<tr>
<th></th>
<th>91-92</th>
<th>92-93</th>
<th>93-94</th>
<th>94-95</th>
<th>95-96</th>
<th>96-97</th>
<th>97-98</th>
<th>98-99</th>
<th>99-00</th>
<th>00-01</th>
<th>01-02</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Business Covered</td>
<td>55027</td>
<td>68085</td>
<td>86650</td>
<td>116929</td>
<td>130118</td>
<td>151364</td>
<td>166514</td>
<td>166731</td>
<td>173535</td>
<td>184492</td>
<td>181908</td>
<td>148155</td>
</tr>
<tr>
<td>Premium Income</td>
<td>89.51</td>
<td>105.10</td>
<td>135.49</td>
<td>164.84</td>
<td>207.34</td>
<td>236.96</td>
<td>265.16</td>
<td>296.70</td>
<td>306.77</td>
<td>330.45</td>
<td>338.52</td>
<td>2476.8</td>
</tr>
<tr>
<td>Claims Paid</td>
<td>105.35</td>
<td>105.14</td>
<td>193.56</td>
<td>227.52</td>
<td>220.87</td>
<td>203.03</td>
<td>235.76</td>
<td>121.08</td>
<td>134.42</td>
<td>212.49</td>
<td>487.12</td>
<td>2246.3</td>
</tr>
<tr>
<td>Recoveries Made</td>
<td>34.75</td>
<td>19.08</td>
<td>37.77</td>
<td>52.62</td>
<td>47.37</td>
<td>29.64</td>
<td>20.45</td>
<td>7.42</td>
<td>23.28</td>
<td>21.45</td>
<td>26.76</td>
<td>320.59</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report, 2001-02 of ECGC

Table – 10A, views Corporation’s claims experience analyzed by type of risks from its inception in the year 1957 to 2001-2002. The amount net outstanding comes to Rs. 1975.36 lacs after the amount Rs. 1473.64 written off in insolvency, recoveries made were Rs. 31.84 lacs where as claims paid were Rs. 3480.81 lacs. Amount outstanding in default comes to Rs. 148492.04 lacks, claims paid to Rs. 173822.31, recoveries made were Rs. 22266.32 lacks and amount written off was Rs. 3063.95 lacks. Amount outstanding in political risks comes to Rs. 66082.32 lacks, claims paid to Rs. 83640.15 lacks, recoveries made were Rs. 17429.83 lacks.
and the amount written off comes to Rs. 128 lacs. In other cases amount outstanding comes to Rs. 1495.79 lacs and net claims paid were Rs. 1842.28 lacks.

Table – 10C presents claims experience from 1993-94 to 2001-02 period. Amount net outstanding for risks come to Rs. 172641.49 lacs where as it was Rs. 45404.02 lacs from 1957 to 1992-93. Claims paid during 1993-94 to 2001-02 for risks were Rs. 203585.55 where as it was Rs. 59200 lacks in 1957 to 1992-93. It was 3.43 times more than in 1957 to 1992-93.

Table – 10A

ECGC-Claims experience Analyzed by Type of Risks
(During 1957-2001-02)

<table>
<thead>
<tr>
<th>Types of Risks</th>
<th>Claims Paid</th>
<th>Recovery</th>
<th>Written off</th>
<th>Net Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insolvency</td>
<td>3480.81</td>
<td>31.84</td>
<td>1473.61</td>
<td>1975.36</td>
</tr>
<tr>
<td>Default</td>
<td>173822.31</td>
<td>22266.32</td>
<td>3063.95</td>
<td>148492.04</td>
</tr>
<tr>
<td>Political Risks</td>
<td>83640.15</td>
<td>17429.83</td>
<td>128.00</td>
<td>66082.32</td>
</tr>
<tr>
<td>Others</td>
<td>1842.28</td>
<td>6.73</td>
<td>339.76</td>
<td>1495.79</td>
</tr>
<tr>
<td>Total</td>
<td>262785.55</td>
<td>39734.72</td>
<td>5005.32</td>
<td>218045.51</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of ECGC

Table – 10B

ECGC-Claims Experience by Type of Risks (During 1957 to 1992-93)

<table>
<thead>
<tr>
<th>Risks</th>
<th>Claims Paid</th>
<th>Recovery</th>
<th>Written off</th>
<th>Net Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>59200.00</td>
<td>13012.79</td>
<td>783.19</td>
<td>45404.02</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 2001-02 of ECGC
Table - 10A, ECGC-Claims Experience Analysed by type of Risks
(During 1957 to 2001-02)

- Claim paid
- Recovery
- Written off
- Net Outstanding

Rs. in Lacks

3480.81

31.84

1473.61

1975.36

Claim paid
Recovery
Written off
Net Outstanding
Table - 10B, ECGC-Claims Experience Analysed by type of Risks (During 1957 to 1992-93)

<table>
<thead>
<tr>
<th>Recovery</th>
<th>Claim paid</th>
<th>Recovery</th>
<th>Written off</th>
<th>Net Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>59200.00</td>
<td>13012.79</td>
<td>783.19</td>
<td>45404.02</td>
</tr>
</tbody>
</table>

Rs in Lacks
Table – 10C

ECGC-Claims Experience by Type of Risks (During 1993-94 to 2001-02)
(Rs. in Lacks)

<table>
<thead>
<tr>
<th>Risks</th>
<th>Claims Paid</th>
<th>Recovery</th>
<th>Written off</th>
<th>Net Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>203585.55</td>
<td>26721.93</td>
<td>4222.13</td>
<td>172641.49</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 1992-93 of ECGC

Table 11 presents country wise value covered under short term insurance Policies of the corporation for periods 1990-91 to 1992-93 and 1999-2000 to 2001-02. Table shows twenty countries with their names and others. The largest value of short term policies covered were for U.S.A., U.K., Germany and others. In 1990-91 the total of short term insurance policies of the corporation comes to Rs. 4942.68 crore where as it was Rs. 7423.99 and Rs. 9441.26 cores for 1991-92 and 1992-93 respectively. It recorded an annual growth of 50.27 percent and 27.17 percent respectively. Total value covered under short term insurance policies in 1999-2000 to 2001-02 come to Rs. 23134.46, 24616.73 and Rs.23524.20 crore respectively. Registering a growth of 6.41 percent in 2000-01 and a negative growth of 4.34 percent in 2001-02. When compared it with 2001-02 to 1990-91 the growth in value covered under short-term policies comes to three hundred and seventy six times more.

Table 12 presents country wise value covered under Terms Exporter Policies including lines of credit and buyer’s credit for Nineteen countries for period 1999-2000 to 2001-2002. The largest value of Term Export Policies in 1999-2000 for Bangladesh recorded to 318.41 crore and Rs. 250.94 crore for Kuwait whereas, it was 865.86 crore for other countries moreover the value covered under term exports policies for nine different countries remains to Zero. The highest value covered in 2000-01 for Kuwait – to Rs. 66.35 crore and Rs. 64.81 crore for Bangladesh. In 2001-02 the highest value of Term Policies were for Saudi Arabia and Oman respectively. 2
# Table - 11

ECGC-Country wise Value covered under Short Term Insurance Policies

(Rs. in Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>U.S.A.</td>
<td>813.75</td>
<td>1305.03</td>
<td>1756.06</td>
<td>5020.32</td>
<td>5945.86</td>
<td>5382.52</td>
</tr>
<tr>
<td>2.</td>
<td>U.K.</td>
<td>642.15</td>
<td>1056.29</td>
<td>1190.85</td>
<td>2967.91</td>
<td>2581.97</td>
<td>2633.31</td>
</tr>
<tr>
<td>3.</td>
<td>Germany</td>
<td>767.16</td>
<td>973.95</td>
<td>1116.74</td>
<td>2067.50</td>
<td>2290.63</td>
<td>1991.83</td>
</tr>
<tr>
<td>4.</td>
<td>Italy</td>
<td>271.14</td>
<td>315.46</td>
<td>403.88</td>
<td>1327.58</td>
<td>1157.35</td>
<td>1065.93</td>
</tr>
<tr>
<td>5.</td>
<td>U.A.E.</td>
<td>190.18</td>
<td>345.13</td>
<td>388.38</td>
<td>1003.39</td>
<td>1035.52</td>
<td>946.89</td>
</tr>
<tr>
<td>6.</td>
<td>France</td>
<td>156.06</td>
<td>234.57</td>
<td>356.68</td>
<td>779.60</td>
<td>1001.68</td>
<td>873.13</td>
</tr>
<tr>
<td>7.</td>
<td>Netherlands</td>
<td>153.76</td>
<td>218.15</td>
<td>247.01</td>
<td>678.50</td>
<td>777.23</td>
<td>746.76</td>
</tr>
<tr>
<td>8.</td>
<td>Singapore</td>
<td>133.73</td>
<td>268.74</td>
<td>345.47</td>
<td>609.01</td>
<td>697.63</td>
<td>682.74</td>
</tr>
<tr>
<td>9.</td>
<td>Hongkong</td>
<td>91.83</td>
<td>152.43</td>
<td>185.44</td>
<td>562.90</td>
<td>565.82</td>
<td>552.24</td>
</tr>
<tr>
<td>10.</td>
<td>Canada</td>
<td>62.70</td>
<td>113.27</td>
<td>134.35</td>
<td>495.44</td>
<td>525.26</td>
<td>550.19</td>
</tr>
<tr>
<td>11.</td>
<td>Japan</td>
<td>161.37</td>
<td>268.67</td>
<td>335.13</td>
<td>751.04</td>
<td>715.44</td>
<td>526.73</td>
</tr>
<tr>
<td>12.</td>
<td>Spain</td>
<td>52.48</td>
<td>83.18</td>
<td>119.00</td>
<td>398.20</td>
<td>420.90</td>
<td>448.65</td>
</tr>
<tr>
<td>13.</td>
<td>Australia</td>
<td>94.93</td>
<td>153.20</td>
<td>194.99</td>
<td>395.63</td>
<td>361.41</td>
<td>415.86</td>
</tr>
<tr>
<td>14.</td>
<td>Switzerland</td>
<td>99.49</td>
<td>143.51</td>
<td>174.18</td>
<td>373.50</td>
<td>354.55</td>
<td>372.73</td>
</tr>
<tr>
<td>15.</td>
<td>Sri Lanka</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>479.03</td>
<td>358.44</td>
<td>320.42</td>
</tr>
<tr>
<td>16.</td>
<td>Belgium</td>
<td>100.12</td>
<td>113.87</td>
<td>161.95</td>
<td>345.18</td>
<td>349.89</td>
<td>319.96</td>
</tr>
<tr>
<td>17.</td>
<td>Bangladesh</td>
<td>121.54</td>
<td>146.17</td>
<td>142.06</td>
<td>420.58</td>
<td>477.74</td>
<td>315.70</td>
</tr>
<tr>
<td>18.</td>
<td>Saudi Arabia</td>
<td>74.48</td>
<td>176.33</td>
<td>217.75</td>
<td>223.72</td>
<td>338.28</td>
<td>309.64</td>
</tr>
<tr>
<td>19.</td>
<td>Malaysia</td>
<td>50.16</td>
<td>85.80</td>
<td>117.84</td>
<td>191.66</td>
<td>306.66</td>
<td>232.40</td>
</tr>
<tr>
<td>20.</td>
<td>Sweden</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>180.73</td>
<td>191.17</td>
<td>193.77</td>
</tr>
<tr>
<td>21.</td>
<td>Others</td>
<td>905.65</td>
<td>1270.24</td>
<td>1858.50</td>
<td>3863.04</td>
<td>4163.30</td>
<td>4642.80</td>
</tr>
<tr>
<td>Total</td>
<td>4942.68</td>
<td>7423.99</td>
<td>9441.26</td>
<td>23134.46</td>
<td>24616.73</td>
<td>23524.20</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of ECGC.
### Table – 12

**ECGC-Country wise value covered under Terms Exports Policies including Lines of Credit and Buyer’s Credit**

(Rs. in Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Saudi Arabia</td>
<td>60.90</td>
<td>103.34</td>
<td>62.09</td>
</tr>
<tr>
<td>2</td>
<td>Oman</td>
<td>5.56</td>
<td>2.00</td>
<td>36.90</td>
</tr>
<tr>
<td>3</td>
<td>Iran</td>
<td>3.08</td>
<td>10.08</td>
<td>27.62</td>
</tr>
<tr>
<td>4</td>
<td>Taiwan</td>
<td>0.00</td>
<td>0.00</td>
<td>27.03</td>
</tr>
<tr>
<td>5</td>
<td>Bangladesh</td>
<td>318.41</td>
<td>64.81</td>
<td>14.26</td>
</tr>
<tr>
<td>6</td>
<td>Turkey</td>
<td>0.00</td>
<td>9.13</td>
<td>13.89</td>
</tr>
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<td>7</td>
<td>Kuwait</td>
<td>250.94</td>
<td>66.35</td>
<td>8.64</td>
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<td>8</td>
<td>Ethiopia</td>
<td>11.32</td>
<td>17.48</td>
<td>5.91</td>
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<td>Uganda</td>
<td>0.00</td>
<td>12.60</td>
<td>5.44</td>
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<td>Madagascar</td>
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<td>Azerbaizan</td>
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<td>0.00</td>
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<td>12</td>
<td>Philippines</td>
<td>24.55</td>
<td>1.25</td>
<td>1.72</td>
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<td>Qatar</td>
<td>0.00</td>
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<td>14</td>
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<td>19.94</td>
<td>4.84</td>
<td>0.90</td>
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<td>Sudan</td>
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<td>0.00</td>
<td>0.77</td>
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<td>Kenya</td>
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<td>Dubai</td>
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<td>20</td>
<td>Others</td>
<td>865.88</td>
<td>94.03</td>
<td>0.00</td>
</tr>
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<td></td>
<td>TOTAL</td>
<td>1568.32</td>
<td>416.32</td>
<td>215.50</td>
</tr>
</tbody>
</table>

**Source:** Compiled from Annual Report 2001-02 of ECGC
Table 13 presents premium income from guarantees for periods 1988-89 to 1992-93. The total premium income from Guarantees of the Corporation for the year 1992-93 amounted to Rs. 62.61 crore showing a growth of 20 percent over the 1991-92 year’s premium income from guarantees of Rs. 52.35 crore. The highest annual growth in premium income is recorded to 40 percent in 1989-90.

Table 14 depicts premium income from guarantees for periods 1997-98 to 2001-2002. The total premium income from guarantees of corporation for the year 2001-02 amounted to Rs. 230.74 crore, showing a growth of 3 percent over the preceding year’s premium income from guarantees of Rs. 225.02 crore. The highest annual growth in premium income from guarantees of the corporation recorded to 12 percent in 1998-99.

Table 13 presents premium income from guarantees for periods 1988-89 to 1992-93. The total premium income from Guarantees of the Corporation for the year 1992-93 amounted to Rs. 62.61 crore showing a growth of 20 percent over the 1991-92 year’s premium income from guarantees of Rs. 52.35 crore. The highest annual growth in premium income is recorded to 40 percent in 1989-90.

Table 14 depicts premium income from guarantees for periods 1997-98 to 2001-2002. The total premium income from guarantees of corporation for the year 2001-02 amounted to Rs. 230.74 crore, showing a growth of 3 percent over the preceding year’s premium income from guarantees of Rs. 225.02 crore. The highest annual growth in premium income from guarantees of the corporation recorded to 12 percent in 1998-99.

### Table – 13

**ECGC – Premium Income from Guarantees (During 1988-89 to 1992-93)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium Income (Guarantees)</th>
<th>% Growth per Annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>21.29</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>29.86</td>
<td>40</td>
</tr>
<tr>
<td>1990-91</td>
<td>38.78</td>
<td>30</td>
</tr>
<tr>
<td>1991-92</td>
<td>52.35</td>
<td>35</td>
</tr>
<tr>
<td>1992-93</td>
<td>62.61</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 1992-93 of ECGC
Table - 13, ECGC- Total Premium Income from Guarantees (During 1988-89 to 1992-93)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>21.29</td>
</tr>
<tr>
<td>1989-90</td>
<td>29.86</td>
</tr>
<tr>
<td>1990-91</td>
<td>38.78</td>
</tr>
<tr>
<td>1991-92</td>
<td>52.35</td>
</tr>
<tr>
<td>1992-93</td>
<td>62.61</td>
</tr>
</tbody>
</table>
### Table 14

**ECGC – Premium Income from Guarantees (During 1997-98 to 2001-02)**

(Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income – Guarantees</th>
<th>% Growth per Annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>177.18</td>
<td>-</td>
</tr>
<tr>
<td>1998-99</td>
<td>198.19</td>
<td>12</td>
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<tr>
<td>1999-00</td>
<td>206.19</td>
<td>4</td>
</tr>
<tr>
<td>2000-01</td>
<td>225.02</td>
<td>9</td>
</tr>
<tr>
<td>2001-02</td>
<td>230.74</td>
<td>3</td>
</tr>
</tbody>
</table>

**Source:** Compiled from Annual Report 2001 – 2002 of ECGC

Table 15 shows year wise total premium income from different policies of the corporation, for periods from 1988-89 to 92-93. The total premium income from policies of the corporation for the year was 1992-93 amounted to Rs. 149.52 crore, showing a growth of 17 percent over the preceding year’s (1991-92). Premium income from policies. The highest average annual premium income from policies of the corporation recorded to 43 percent in 1991-92, followed by 34 percent in 1989-90.

Table 16 shows year wise total premium income from policies of the corporation for the year 2001-02 amounted to Rs. 330.45 crore, showing a growth of 2 percent over the preceding year’s premium income form policies. The highest average annual premium income from policies of the corporation recorded to 15 percent in 2000-2001, followed by 11 percent in 1998-99.
### Table – 15

**ECGC-Premium Income from Policies (During 1988-89 to 1992-93)**

(Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium (Rs. in Crore)</th>
<th>% Growth per Annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>35.42</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>47.46</td>
<td>34</td>
</tr>
<tr>
<td>1990-91</td>
<td>62.48</td>
<td>32</td>
</tr>
<tr>
<td>1991-92</td>
<td>89.51</td>
<td>43</td>
</tr>
<tr>
<td>1992-93</td>
<td>105.10</td>
<td>17</td>
</tr>
</tbody>
</table>

**Source:** Compiled from Annual Report 1992-93 of ECGC

### Table – 16

**ECGC-Premium Income from Policies (During 1997-98 to 2001-02)**

(Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income – Policies (Rs. in Crore)</th>
<th>% Growth per Annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>244.32</td>
<td>-</td>
</tr>
<tr>
<td>1998-99</td>
<td>270.33</td>
<td>11</td>
</tr>
<tr>
<td>1999-00</td>
<td>283.24</td>
<td>5</td>
</tr>
<tr>
<td>2000-01</td>
<td>324.33</td>
<td>15</td>
</tr>
<tr>
<td>2001-02</td>
<td>330.45</td>
<td>2</td>
</tr>
</tbody>
</table>

**Source:** Compiled from Annual Report 2001 – 2002 of ECGC

Table 17 presents year wise total income of the corporation for periods from 1988-89 to 1992-93. The total income of the corporation for the year 1992-93 amounted to Rs. 149.52 crore, registering a growth of 14 percent over the
Table - 15, ECGC- Total Premium Income from Policies (During 1988-89 to 1992-93)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>35.42</td>
</tr>
<tr>
<td>1989-90</td>
<td>47.46</td>
</tr>
<tr>
<td>1990-91</td>
<td>62.48</td>
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<tr>
<td>1991-92</td>
<td>89.51</td>
</tr>
<tr>
<td>1992-93</td>
<td>105.1</td>
</tr>
</tbody>
</table>
Table - 16, ECGC- Total Premium Income from Policies (During 1997-98 to 2001-02)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>244.32</td>
</tr>
<tr>
<td>1998-99</td>
<td>270.33</td>
</tr>
<tr>
<td>1999-2000</td>
<td>283.24</td>
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<tr>
<td>2000-01</td>
<td>324.33</td>
</tr>
<tr>
<td>2001-02</td>
<td>330.45</td>
</tr>
</tbody>
</table>
preceding year’s (1991-92) total income of Rs. 131.56 crore. The highest average annual growth in total income is recorded to 54 percent in 1991-92. Table – 19 presents Corporation’s Total Income from Guarantees and Policies for period from 1997-98 to 2001-2002. The total income of the corporation for the year 2001-02 amounted to Rs. 491.82 crore, registering a growth of 3 percent. Over the preceding year’s total income of Rs. 477.20 crore. The highest average annual growth in total income is recorded to 16 percent in 2000-01 followed by 13 percent growth in 1999-2000.

**Table – 17**

**ECGC-Total Income from Guarantees and Policies (During 1988-89 to 1992-93)**

(Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium</th>
<th>% Growth per Annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>51.72</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>64.84</td>
<td>25</td>
</tr>
<tr>
<td>1990-91</td>
<td>85.56</td>
<td>32</td>
</tr>
<tr>
<td>1991-92</td>
<td>131.56</td>
<td>54</td>
</tr>
<tr>
<td>1992-93</td>
<td>149.52</td>
<td>14</td>
</tr>
</tbody>
</table>

*Source: Compiled from Annual Report 1992-93 of ECGC*

**Table – 18**

**ECGC-Total Income from Guarantees and Policies (During 1997-98 to 2001-02)**

(Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>(Rs. in crores)</th>
<th>% Growth per Annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>326.31</td>
<td>-</td>
</tr>
<tr>
<td>1998-99</td>
<td>363.41</td>
<td>11</td>
</tr>
<tr>
<td>1999-00</td>
<td>411.83</td>
<td>13</td>
</tr>
<tr>
<td>2000-01</td>
<td>477.20</td>
<td>16</td>
</tr>
<tr>
<td>2001-02</td>
<td>491.82</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: Compiled from Annual Report 2001 – 2002 of ECGC*
### Table - 17, ECGC - Total Premium Income from Guarantees and Policies
(During 1988-89 to 1992-93)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>51.72</td>
</tr>
<tr>
<td>1989-90</td>
<td>64.84</td>
</tr>
<tr>
<td>1990-91</td>
<td>85.56</td>
</tr>
<tr>
<td>1991-92</td>
<td>131.56</td>
</tr>
<tr>
<td>1992-93</td>
<td>149.52</td>
</tr>
</tbody>
</table>
Table - 18, ECGC- Total Premium Income from Guarantees and Policies (During 1997-98 to 2001-02)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>326.31</td>
</tr>
<tr>
<td>1998-99</td>
<td>363.41</td>
</tr>
<tr>
<td>1999-2000</td>
<td>411.83</td>
</tr>
<tr>
<td>2000-01</td>
<td>477.2</td>
</tr>
<tr>
<td>2001-02</td>
<td>491.82</td>
</tr>
</tbody>
</table>
Table 19 presents value of Risks covered for various policies and guarantees of the corporation for the periods in 1990-92 and 2000-2002. Value of short term policies for the year 1991-92 amounted to Rs. 905536 Lacs, registering a growth of 43 percent over the preceding year’s 1990-91 total value of short term policies of Rs. 634875 lacks. Short-term policies of the period 2001-02 amounted to Rs. 2352420 lacs, recording a negative growth of 4 percent over the preceding year’s total value of short-term policies of the corporation. Transfer guarantees for the year 1991-92 was amounted to Rs. 1028 Lacs, registering a negative growth of 9.58 percent over the preceding years. Transfer guarantees of Rs. 1137 lacs in 1990-91. Project and term export policies of the year 1991-92 amounted to 74208 registering a growth of 85 percent over the preceding year’s project and term export policies of Rs. 40068 lacs. Project and term exports policies for the 2001-02 amounted to Rs. 21550 lacs recording a negative growth of 48 percent over the preceding year of Rs. 41632 lacs. Corporation covered value of risks under overseas investment policies for the year 2001-02 amounted to Rs. 14440 lacs recording a negative growth of 8.44 percent over the preceding year’s of risk covered of Rs. 15772 lacs.

Packing credit (Pre-shipment credit) guarantees for the year 1991-92 were amounted to Rs. 3027318 lacs recording a growth of 41 percent over the preceding year’s packing credit guarantees of Rs. 2140370 lacs. However it was Rs. 11295872 in 2001-02 recording a growth of 1.34 percent over the preceding year’s packing credit guarantees. Corporation’s post-shipment guarantees for the year 1991-92 were amounted to Rs. 1407153 lacs recording a growth of 58 percent over the preceding year’s post-shipment guarantees of Rs. 890726 lacs. However, it was 4359592 lacs registering a negative growth of 6.3 percent over the preceding year’s post-shipment guarantees of Rs. 4652358 lacs. Export finance guarantees for the year 1991-92 were amounted to Rs. 15832 lacs showing a growth 10 percent over the previous year’s performance guarantees of Rs. 14416 lacs. Export finance guarantees for the year 2001-02 was amounted to Rs. 1739 lacks recording
a growth of 33 percent over the receding year’s of Rs. 1310 lacs. Export performance guarantees (Short term) for the year 1991-92 were amounted to Rs. 19063 lacs recording a growth of 14 percent over the previous year of Rs. 16706 lacs. Where as for long term it was 48486 lacs in 1991-92 recording, a growth of 15 percent over the preceding year’s export performance guarantees (long term) of Rs. 57190 lacs. It was amounted to Rs. 74403 lacs in 2001-02 showing a growth of 130 percent over the preceding year’s of Rs. 32252 lacs. The total value of risks covered in 1991-92 were amounted to Rs. 5502665 lacs recording a growth of 45 percent over the previous year’s total value of risk covered of Rs. 3799235 lacs. However it was Rs. 18190857 lacs in 2001-02 recording a negative growth of 1.4 percent over the preceding year’s total value of risk covered of Rs. 18449151 lacs.

Table – 19
ECGC-Value of Risks Covered

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Policies</td>
<td>634875</td>
<td>905536</td>
<td>2461673</td>
<td>2352420</td>
</tr>
<tr>
<td>Project &amp; Term Export Policies</td>
<td>1137</td>
<td>1028</td>
<td>1613</td>
<td>600</td>
</tr>
<tr>
<td>Overseas Investment Policies</td>
<td>40068</td>
<td>74208</td>
<td>41632</td>
<td>21550</td>
</tr>
</tbody>
</table>

GUARANTEES

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Packing Credit Guarantee</td>
<td>2140370</td>
<td>3027318</td>
<td>11146198</td>
<td>11295872</td>
</tr>
<tr>
<td>Post-shipment Guarantees</td>
<td>890726</td>
<td>1407153</td>
<td>4652358</td>
<td>4359592</td>
</tr>
<tr>
<td>Export Finance Guarantees</td>
<td>14416</td>
<td>15832</td>
<td>1310</td>
<td>1739</td>
</tr>
<tr>
<td>Export Production Finance</td>
<td>3747</td>
<td>4041</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Export Performance Guarantee (Short Term)</td>
<td>16706</td>
<td>19063</td>
<td>96343</td>
<td>70243</td>
</tr>
<tr>
<td>Export Performance Guarantee (Long Term)</td>
<td>57190</td>
<td>48486</td>
<td>32252</td>
<td>74403</td>
</tr>
<tr>
<td>Total</td>
<td>37,99,235</td>
<td>55,02,665</td>
<td>1,84,49,151</td>
<td>1,81,90,859</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of ECGC
Table – 20
ECGC – Source of Premium Income

(Rs. in Lacs)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>POLICIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term Policies</td>
<td>1762.43</td>
<td>3095.04</td>
<td>9657.12</td>
<td>10097.01</td>
</tr>
<tr>
<td>Transfer Guarantees</td>
<td>18.04</td>
<td>3.83</td>
<td>14.72</td>
<td>4.80</td>
</tr>
<tr>
<td>Project &amp; Term Export Policies</td>
<td>583.89</td>
<td>610.15</td>
<td>625.76</td>
<td>510.32</td>
</tr>
<tr>
<td>Overseas Investment Policies</td>
<td>5.69</td>
<td>6.90</td>
<td>244.07</td>
<td>165.72</td>
</tr>
<tr>
<td><strong>GUARANTEES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packing Credit Guarantee</td>
<td>2416.39</td>
<td>3183.65</td>
<td>15088.15</td>
<td>1580.03</td>
</tr>
<tr>
<td>Post-shipment Guarantees</td>
<td>741.42</td>
<td>1284.24</td>
<td>6124.06</td>
<td>6203.94</td>
</tr>
<tr>
<td>Export Finance Guarantees</td>
<td>17.56</td>
<td>32.30</td>
<td>1.80</td>
<td>4.28</td>
</tr>
<tr>
<td>Export Production Finance Guarantees</td>
<td>27.73</td>
<td>16.10</td>
<td>0.00</td>
<td>0.50</td>
</tr>
<tr>
<td></td>
<td>106.23</td>
<td>192.31</td>
<td>649.21</td>
<td>485.59</td>
</tr>
<tr>
<td>Export Performance Guarantee</td>
<td>568.73</td>
<td>526.44</td>
<td>639</td>
<td>577.14</td>
</tr>
<tr>
<td>(Short Term)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Performance Guarantee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Long Term)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6248.11</td>
<td>8950.96</td>
<td>33044.26</td>
<td>33851.88</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of ECGC

Table 20 presents sources of premium income of the corporation for the periods from 1990-92 to 2000-02. The total premium income from various policies and guarantees of the corporation for the year 1991-92 were amounted to Rs.
8950.96 lacs registering a growth of 43 percent over the previous year’s total premium income of Rs. 6248.11 lacs. However it was Rs. 33851.88 lacs for the 2001-02 recording a growth of 2.4 percent over the previous year total premium income of Rs. 33044.26 lacs. The corporation’s largest share of premium income arises from packing credit guarantees and short term policies. Premium income from packing credit guarantees to total premium income comes to 47 percent in 2001-02 and 45 percent in the year 2000-01. Premium income from short term policies to total premium income comes to 30 percent in 2001-02 and 29 percent in 2000-01.

Table 21 shows sector wise claims paid by the corporation for the periods in 1990-92 to 2000-02. The total claims paid for the year 1991-92 were amounted Rs. 10534.6 lacs registering a negative growth of 3.9 percent over the preceding year’s total claims Paid of Rs. 10960.11 Lacs. Total claims paid for the 2001-02 were amounted to Rs. 48712.29 lacs registering a growth of 129 percent over the preceding year’s total claims paid of Rs. 21248.79 lacs. The corporation paid the largest amount as claim for short-term policies and packing credit guarantees. The share of packing in 2001-02 comes to 73 percent and 50 percent in 2000-01.

Table 22 presents Guarantees of the Corporation to banks during 1997-98 to 2001-02. Corporation issued guarantees during 2001-02 for Rs. 158018 crore, where as it issued guarantees to banks during 2000-01 for Rs. 159285 crore. Registering a negative growth of 0.8 percent.
# Table –21

ECGC – Sector wise Claims Paid

(Rs. in Lacs)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>POLICIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term Policies</td>
<td>2408.53</td>
<td>2594.69</td>
<td>3056.58</td>
<td>3408.12</td>
</tr>
<tr>
<td>Transfer Guarantees</td>
<td>100.54</td>
<td>2.25</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Project &amp; Term Export Policies</td>
<td>583.89</td>
<td>2749.02</td>
<td>562.43</td>
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<td>Overseas Investment Policies</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>GUARANTEES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packing Credit Guarantee</td>
<td>480.35</td>
<td>963.34</td>
<td>10653.76</td>
<td>35730.80</td>
</tr>
<tr>
<td>Post-shipment Guarantees</td>
<td>91.78</td>
<td>72.87</td>
<td>2638.56</td>
<td>7644.01</td>
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<td>Export Finance Guarantees</td>
<td>1.84</td>
<td>0.97</td>
<td>34.86</td>
<td>0.00</td>
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<tr>
<td>Export Production Finance</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Export Performance Guarantee</strong></td>
<td>6.06</td>
<td>0.41</td>
<td>897.67</td>
<td>636.44</td>
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<td>(Short Term)</td>
<td></td>
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<td>Export Performance Guarantee</td>
<td>2791.50</td>
<td>4151.05</td>
<td>3404.93</td>
<td>1292.92</td>
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<tr>
<td>(Long Term)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10960.11</td>
<td>10534.60</td>
<td>21248.79</td>
<td>48712.29</td>
</tr>
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</table>

*Source: Compiled from various Annual Reports of ECGC*
Table – 22
ECGC – Guarantees to Banks (During 1997-98 to 2001-02) (Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>145043</td>
</tr>
<tr>
<td>1998-99</td>
<td>142208</td>
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<tr>
<td>1999-98</td>
<td>148581</td>
</tr>
<tr>
<td>2000-01</td>
<td>159285</td>
</tr>
<tr>
<td>2001-02</td>
<td>158018</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 2001-02 of ECGC.

Table – 23
ECGC – Claims paid (During 1997-98 to 2001-02) (Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>235.76</td>
</tr>
<tr>
<td>1998-99</td>
<td>121.08</td>
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<tr>
<td>1999-98</td>
<td>134.42</td>
</tr>
<tr>
<td>2000-01</td>
<td>212.49</td>
</tr>
<tr>
<td>2001-02</td>
<td>487.12</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Report 2001-02 of ECGC.

Table 23 presents claims paid by the Corporation during 1997-2002. Claims paid during 2001-02 were Rs. 487.12 crore. While claims of Rs. 212.49 crore were paid in 2000-01, registering a growth of 56 percent over the previous year.
Table - 22, ECGC-Cover to Banks (During 1997-98 to 2001-02)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>145043</td>
</tr>
<tr>
<td>1998-99</td>
<td>142208</td>
</tr>
<tr>
<td>1999-2000</td>
<td>148581</td>
</tr>
<tr>
<td>2000-01</td>
<td>159285</td>
</tr>
<tr>
<td>2001-02</td>
<td>158018</td>
</tr>
</tbody>
</table>
Table-23, ECGC- Claims Paid (During 1997-98 to 2001-02)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>235.76</td>
</tr>
<tr>
<td>1998-99</td>
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<td>1999-2000</td>
<td>134.42</td>
</tr>
<tr>
<td>2000-01</td>
<td>212.49</td>
</tr>
<tr>
<td>2001-02</td>
<td>487.12</td>
</tr>
</tbody>
</table>
References:
2. Ibid, 2001-02
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CHAPTER - 5
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PROBLEMS AND PROSPECTS OF “EXPORT CREDIT INSTITUTIONS”

Introduction

Trading with overseas buyer is risky but when International trade is carried on credit terms, the risk becomes all the greater. Financial Institutions are often reluctant to grant export credits unless adequate guarantees are given. Although banks in India do show a flexible attitude and a developmental bias in extending export credits, the various activities of the ECGC have contributed significantly to increase and strengthen their willingness to advance these credits on substantially large scale. The integration of the economics has led to a substantial growth of multi source transactions, where the buyer in an importing country obtains its goods from different exporting countries. For banks, Exporters, importers and Export Credit Agencies (ECAs) this implies a substantial amount of work. To obtain adequate cover negotiations have to be held with all ECAs involved. Different application forms have to be filled in, various underwriting criteria have to be met, diverse conditions of cover have to be taken into account and each ECA charges its own premium. A lot of time, and thus money, could be saved if the ECAs so cooperated more closely with one another. Standardization of policies and premium fees would be very helpful to all parties concerned. Country Risk analysis is one of the major problems, facing Export Credit Institutions, in financing foreign trade. In this era of active international trade, country risk has become a great interest to bankers and exporters. Country risk, is the likelihood that an obligation will not be repaid on time because of factors other than those directly involved in the operation of private business—that is, all non-commercial risk. War and civil disturbances can easily be defined as country risk. The definition becomes more complex with such matters as availability and accessibility of foreign exchange.
A variety of analytical tools are employed which are reflective of conditions in the part of the world. In areas where statistics are reliable, there is a tendency to use mathematical techniques. In other parts of the world, reliance is placed on historical and political trends.

**Domestic Performance:** The first considerations are indicators of domestic performance. These indicators include:

Economic size and growth, population growth and quality, natural resource base, savings and investment levels, budget surplus/deficit, money supply, consumer price index, and development plans.

**External Factors:** Analysis is also made of external trade and finance. Following indicators are looked at:

Exports and Imports, Current account, capital account, and balance of payment.

In addition to analyzing external trades and finance, Exim bank country’s economists also review external debt and foreign exchange reserves. A nation’s external debt position reveals much about the country’s risk. A nation’s gold and foreign reserves are its shock-absorber.

**Judgemental factors:** Finally certain factors that are difficult to measure objectively provide the country economist with important information to evaluate country risk. These judgemental items include the country’s political stability and economic management, as well as how the country is viewed by lenders.

Political stability is a very important item but a hard one to measure. Some country’s political problems are readily apparent, while others maintain a façade until a violent change takes place. To analyze a country’s political stability, knowledge of history, culture, and economic imperatives of the area is important, as is close contact with the country. Study is also made of country’s economic management. How well has the country performed over time? How has it done relative to its particular problems? How has the country handled stress in the past? How competent is the leadership?
Comparing Data: Information processing goes on year round, but formal country portfolio reviews are held semi-annually. These reviews revolve around the country economists’ ranking of countries by risk category.

First, using objective and subjective data countries are ranked within a region by risk of payment. Some comparisons are not difficult; Singapore without question is a better risk than Bangladesh. But comparison of Kuwait and Malaysia is more difficult. A sensible and reasonably consistent global system is then formulated. The length of these country write-ups varies, depending on the country and issues involved.

As a corollary, EGA in newly industrialized economies and developing countries are younger compared with their developed country counterpart. There is strong correlation between the size of financial assistance provided by ECAs and national exports. Thus, almost all ECAs in industrialized countries and newly industrialized countries are larger than their counterparts in developing countries. In general, ECAs in developing countries occupy a larger role in National Exports compared to ECAs in industrialized countries. The importance attached to export promotion by Governments in developing countries is an important explanatory factor for the greater share of the ECAs in developing countries in financing their national exports. Thus, developing country ECAs are expected to be strongly involved in accelerating exports by offering a diversity of schemes as well as through energetic business promotion efforts.

Problems in Short Term Business

In underwriting short-term business, Export Credit Agencies tend to adopt a conveyer belt approach. This is necessary both to handle the large volume of individual cases or contracts, often with quite small values and to minimize administrative expenses. In the short-term area, export credit agencies sell not a guarantee but rather conditional insurance cover. The exporter is offered cover against certain specified commercial and political
risks. It is standard practice to insure less than 100 percent of the contract value so that exporter they carry part of the risk of non-payment. In this area, the cover given is always of the supplier credit type commercial risk includes the (Protracted) default or insolvency of the buyer and, sometimes, the refusal of the buyer to accept the goods (repudiation). Most export credit agencies do not cover disputes between seller and buyer and will normally only examine a claim after a dispute has been resolved. But this is a very sensitive and difficult area and insurers are frequently called on to assess whether the dispute is a real one, or simply a frivolous complaint being used as an excuse for non-payment by a buyer in financial difficulty. Political risk include non-payment due to war or civil war, the enactment of laws, that prevent the transfer of funds, and the imposition, after the export credit institution has come on risk, of export or import licensing. Devaluation or depreciation of local currency as such is not covered as a political risk. Indeed, it is not covered at all unless it is followed by the default or insolvency of the buyer, in which case the claim is normally regarded as a commercial risk claim – that is as an insolvency or default claim, without regard to the reason for the insolvency or default.

Most export credit agencies will consider issuing cover against risks arising either before or after the goods are shipped. Insurance of risks arising before shipment is referred to as pre-credit, pre-commissioning or pre-shipment cover and insurance of those risks arising after shipment as credit, post-commissioning or post-shipment cover. Premium rates for short-term cover are almost always relatively low. Rarely do they exceed 1 percent of the contract value. Short-term cover is normally given to the exporter rather than to the exporter’s bank. However, exporters often assign the insurance policies to their banks as a form of “collateral”, and some export credit agencies have special arrangements or facilities in place to assist this.

A relatively small number of export credit institutions are prepared to issue separate forms of short-term cover directly to banks. These can include
cover for certain specified risks to the banks in those countries that opens letters of credit for imports from the country of export credit institution. On the basis of this cover, the bank in the exporting country may then consider confirming the letter of credit on either open or a silent basis. In an open confirmation, the bank issuing the letter of credit is aware of the confirmation; in a silent confirmation it is not. But even if a letter of credit is used as the means of payment, this does not remove all risk for the exporter. A letter of credit provides some protection against default by the buyer since the bank opening the letter if credit in effect assumes this risk. But unless the letter of credit is confirmed (normally by a bank in the exporting country), the exporter still faces risk with respect to the opening bank, including its ability to transfer foreign exchange. Thus, even where letters of credit are available, exporters may still face a range of commercial and political risks and will often seek protection against these risk from the export credit institution. It is surprising how often these risks are overlooked. It is primarily this area of short-term trade finance business that has witnessed greater competition from new insurers. It is also an area in which some – including some governments them selves - have questioned whether it is any longer necessary or desirable for governments in exporting countries to remain involved, either as insurer or a re-insurer.

**Problems in Medium and Long Term Export Business**

Export credit institutions’ involvement in the medium to long term financing of project is very difficult from their involvement in short term trade finance. First, of course, the horizon of risk is much longer. For example a power station may take 5 years to build, and the repayment of the loan used to finance it may take 10 years more. Thus export credit institutions that insure (or offer) these credits are faced with risks that run over 15 years or more. Individual cases can also be very large. It is not unusual for an export credit institution to under write a number of cases every year where the contract value
or the size of the exposure involved in each case is considerably larger than the agency’s total premium income for the year. In the past, the export credit institutions insured many projects in politically difficult markets, where the risks were perceived as being very high or, at best, impossible to predict. These uncertainties were not solved by a host government guarantee in many of these cases. Also the absence of any kind of reinsurance market meant that each case represented a large block of exposure, which could remain on the institutions books many years. Projects involving medium or long term credit are under written on a case-by-case bases and policies or facilities are issued individually. The amount of work involved can be large and can extend over several months. Medium and long term cover has two main forms:

Supplier credit and buyer credit. Supplier credit as in the short-term area is credit extended to the buyer as part of the contractual agreements, for which the export credit institution provides cover to the exporter. This is always a conditional form of insurance cover and is never for 100 percent of the contract value. Buyer credit is now the more normal form of export credit institution support for projects. The credit used to finance the project is contained in a loan agreement, separate from the project contract between a bank (normally) in the exporter’s country and a bank or borrower in the buyer’s country. A line of credit is a form of buyer credit. It can be issued either in respect of a single project or more generally (general purpose line of credit). But either can be used to finance a number of separate contracts. In the area of medium to long term business, export credit agencies can cover both the risk that arise in the construction period before a project is completed (pre credit risks) and the risks arising the credit period (credit risks).

These risks may sometimes be the subject of two separate facilities. In the first, cover is given to the exporter in the form of supplier credit insurance, usually to cover risks arising before the project is completed or the capital
goods are accepted. In the second (in respect credit risks), cover is given to the financing bank in the form of a buyer credit.

When the export credit agency is in a OECD (Organization for Economic Cooperation and Development) country, the credit terms that it supports must comply (if more than two years credit is involved) with the terms of the OECD arrangement (Formally, the arrangement on Guidelines for official supported export credits). Rules under OECD arrangement now apply to the maximum length of credit, the minimum rate of interest, the minimum down payment, the starting point of credit, and the repayment profile. In addition, and of great importance, beginning in 1999 rules also apply to minimum premium rates for political risks. Finally, in some countries (e.g. Australia and Canada) the export credit agency may itself lend directly to the overseas buyer or borrower, and in other countries (e.g. Austria and Czech Republic) it can refinance all or part of the lending provided by a commercial bank. Some export credit agencies can offer some kind of contingency funding option if the lending bank experiences problems keeping the loan in place. This can happen, for example, if the bank is lending or issuing a facility denominated in a currency other than its own.

**Export Credit Institutions Seek Guarantees from Banks and Host Governments**

Export credit institutions normally underwrite both political and commercial risks. The key concern in a number of areas is the ability of the buyer (or the borrower in a buyer credit arrangement) to fulfill its contractual obligations. Thus, timely and accurate information about the buyer is vital to the underwriter. This includes status and financial information, supported by the audited accounts and, preferably, details of a track record. Such information is needed not just for private buyers but also for public buyers that are wholly or in part Government owned but can not commit the full faith and credit of their Government. Unless the Government in the buying country will stand
behind and be fully and formally responsible for a company’s debt (which is now rather unusual), underwriters need the same kind of information on public (but non sovereign) buyers and banks that they seek for a private company.

If the information is satisfactory, the underwriter will accept the buyer for a specified sum and specified terms (e.g. $1,00,000 and six months’ credit on an open account basis). However, if the underwriter is not satisfied that the information available provides a prudent basis for insuring credit, there are a range of possibilities:

- The underwriter can seek further and/or more up to date information.
- The underwriter can seek to reduce some of the risk by declining open account business and stipulating that payment be made by means of a letter of credit or by bills of exchange or promissory notes.
- The underwriter can seek a guarantee of payment from some acceptable third party, for example, a shareholder or the parent company of the buyer or a bank.
- The underwriter can offer cover at a reduced level (e.g. a credit limit of $30,000, where $1,00,000 was sought).

The existence of letter of credit does not mean that exporters are not still exposed to some risks. In other words, letter of credit offers some protection but not total protection. In addition, these are still the risks of failure of some kind by the bank opening the letter of credit. These may be due to circumstances beyond the bank’s control, for example where a shortage of foreign exchange prevents it from transferring funds to the exporter’s bank. This would normally be part of a countrywide problem in the buying country and not specific to one bank. However, there can also be circumstances where the bank itself is in financial difficulties and so cannot produce sufficient local currency with which to purchase the foreign exchange needed to effect the transfer to the exporter’s bank.

Not all export credit agencies provide cover against the failure of the individual bank opening a letter of credit. Thus, it is vital for exporters to check whether or not they are protected against this risk. If not, then unless they are prepared to take this risk themselves, their only alternative is to seek
confirmation of the letter of credit from a bank in their own country or in some acceptable third country. It follows that underwriters are crucially dependent on reliable and up-to-date information, both on importing companies and on banks in importing countries. Audited accounts for both banks and companies are a vital part of this information. But underwriters also need to have knowledge of – and confidence in – the bankruptcy law in the importing country and the legal system for enforcing it. Obviously severe problems will arise when a country is in transition from one kind of economic structure to another, or where a virtual collapse of the exchange rate has sharply increased the real indebtedness of companies that have borrowed in foreign currency. These situations make it very difficult for underwriters to continue to support business in a country. There will also be a concern about existing exposure, that is, credit that was insured in the past but has not yet been fully repaid.

One course of action traditionally open to underwriters who find it imprudent to take new risks on importing companies and their bank is to seek guarantees from the host Government. Often this is done as a last resort, when confidence in a country and its institutions fallen severely. But there are other less extreme circumstances where a host government guarantee may be sought. These arise, for example, where the buyer or borrower (or sometimes its bank) is in the public sector yet underwriters are not prepared to accept the buyer as a credit risk.

There can also be circumstances in the context of financing infrastructure or other project where the host government may not be the buyer or borrower or even the guarantor, but where government participation and involvement are nonetheless vital to the project’s viability. In such cases a series of understandings, agreements and comfort letters may be sought from the host government.
Debt Crisis Problem

Many export credit agencies have suffered severe consequences from the international debt crises of the 1980s. In some years they paid claims significantly in excess of their premium income, and most of them – at least with respect to their medium and long term credit activities – exhausted their reserves and began to accumulate deficits. In addition, in recent years the trend has been toward forgiveness of country’s external debt, in the form of Paris Club rescheduling for low-income countries. For this and other reasons, the recoverability of some claims that export credit agencies have paid has worsened or disappeared. And this has had an impact on their balance sheet.

There is also now the discipline provided by the WTO Agreement on subsidies and countervailing measures, which requires export credit agencies to break even over the long run. Export credit agencies may be subject to action in the WTO if they do not conform to these rules.

A recent development has been the recognition that the premium rates charged by different export credit agencies for medium and long term credit have differed widely, causing distortions. Although this development is not likely in the short run at least, to produce fully harmonized premium rates, there is now agreement within the OECD on minimum or floor rates. And after a short transition period, premium rates from different export credit agencies for political risk cover will be much more alike.

In the past, export credit agencies tended to be national, and so competition in the export business was between countries. However, in the area of short-term export credit the role of government is being reviewed in many countries, and competition is increasingly between insurers, and thus between export credit agencies.

The traditional security for export credit agencies in large projects in non OECD countries has been government or sovereign guarantees. However, one important background event, has been the large number of buying and
borrowing countries that defaulted in the 1980s and have gone to the Paris Club to reschedule their bilateral debts. This, and the trend toward debt reduction and debt forgiveness for low income countries have led to export credit agencies paying huge claims ($150 billion over the last 10 years or so) and most have also suffered substantial losses. The impact on export credit institutions and their governments remains substantial. And again, export credit agencies are not aid agencies, they are expected to break even over time. The inevitable disenchantment of the export credit agencies with sovereign guarantees from many borrowing countries has also coincided with a shift in many countries toward privatization.

Privatization in its many manifestations has had a major impact on how projects are now financed, not at least because, with increasing frequency host governments are longer willing to be the borrower or guarantor of repayment for lending to projects, even infrastructure projects.

Project financing present a whole new range of challenges and problems, not only for export credit institutions and banks, but also for exporters, contractors and investors. One key question is whether it really makes sense for borrowers, host Governments; lenders, investors and those who insure them to finance large numbers of infrastructure and other projects in foreign currency. Most of these projects, after all, generate little if any foreign exchange to repay the debt incurred. There surely be much greater emphasis on encouraging the local financing (or at least the financing in local currency) of large projects that do not earn foreign currency. The international financial institutions are encouraging more and more governments to privatize and decentralize and to disengage from industrial and commercial activities. This has led to a proliferation of project financing.

Two examples may help illustrate some of the problems:

For many export credit agencies the traditional policy has been that exporters and their banks are responsible for their own documents. Thus, if a
claim arises because a document is faulty or not enforceable, this is not an insured risk and the claim is not payable. If an export credit agency stipulates a particular kind of guarantee, it will normally not examine or approve the guarantee at the time it is obtained. The key stage is then the claims stage.

Obviously, for project financing this is a very important issue, not only because the documents can be a meter high, but because in some buying countries – for example, in Eastern and Central Europe – key aspects of the new legal framework may remain unclear or untested in the courts. Export credit agencies naturally worry that, if they do inspect the documents, for example a take-or-pay contract, it will be very hard for them later to disown responsibility if a claim arises in which the legal enforceability of the documents becomes a key issue in court. As with so many issues in this area it is very dangerous to generalize, and thus the one thing one can say about the question “who bears the documentation risk” is that it is a very good one. But it is a question that is best faced at the outset, not later when problems arise.

The issue of action or inaction by a host government giving rise to non-payment and thus to a claim is also much more difficult in project financing. This is specially true of infrastructure projects (but not restricted to them), because in such projects different agencies and levels of the host government can play so many different roles. The viability of project can depend, for example, on certain tax breaks, and thus on the government not changing its tax policy. It may be the ultimate decision-maker about tariffs or output prices, or it may be necessary that the government sanction the transfer of repayments, profits or dividends. This is not, of course, an exhaustive list, but it demonstrates that the role of government is much more complicated than that of a simple buyer or borrower. Actions or inactions in any of these contexts could raise problems for the projects, resulting in failure of the project to earn the income or profits, it might have otherwise, possibly resulting in default. This brings us back, of course, to documentation risk. How does one ensure that all the things that government says it will and will not do are catalogued,
preferably in a single undertaking or letter? Apart from the clear risk of leaving something out, who should sign such a letter, and is it clear that those persons can commit the full faith and credit of the host government in all relevant contexts? This is particularly important where different levels of government – central, regional, local – are involved, as the relations between these levels vary from country to country. Finally, should the letter specify any kind of penalty on the government if it should breach any of the undertakings?

A third example of the blurred risks that arise in both short term and medium term business is what happens when a country experiences a foreign exchange shortage. In the past such shortages led to transfer delays and so to political risk claims. Now and in the future however, they are likely to lead to currency depreciation and to the default or insolvency of buyers who can no longer afford to purchase the foreign currency they need to repay external creditors. Are these political or commercial risk claims? These considerations indicate that there is now a very important – and growing – gray area of risks that are not easily categorized as either political or commercial. Many risks are both political and commercial, depending upon the circumstances and this has led some people to argue that the distinction between them is artificial or out of date. In practice, the key point is identifying and defining the various risks and decide who shall carry them. This seems more important than categorizing a given risk as either political or commercial. It is not helpful to wait for problems or claims to arise before deciding who is carrying this or that risk.

- Problems can also arise if some lenders or investors – including the international financial institutions – are not prepared to accept a paripassu position (i.e., equal treatment with other lenders and investors).

Against this background, Export Credit Institutions face certain constraints and certain problems. For example:

- Expertise: Export credit agencies cannot have experts in all sectors.
• Analytical capacity: Export credit agencies are limited in the number of projects they can examine at any one time. And projects whose financing takes four or five years to structure (e.g. the Hub river project in Pakistan) are a dubious model for any body or any thing.

• The effect of the debt crises: Export credit agencies bear the scars of the 1980s debt crises, and many have lost substantial reserves. This has led to unprecedented level of scrutiny, by legislatures and ministries of finance, in most exporting countries.

• Over enthusiasm of some project sponsors and advisors: Advisors to a project may be paid on a daily basis rather than by results. Their eagerness to earn fees may clog up the system by lodging a host of impractical applications to be examined.

• Coordination: Export credit agency often encounter difficulty in designing and implementing risk sharing and multi sourcing arrangements (i.e. projects where suppliers and insurers in a number of countries are involved).

• Lack of understanding: Export credit agencies must deal with a continuing misunderstanding on part of many – some of whom should know better – about their role. Again export credit agencies are not source of aid, nor are they sources of united finance. They are not solely or even primarily vehicles for industrial support or foreign policy.

Another difficult area is that of pre-completion risk: who takes the risks of non-completion of a project, and what is the proper role of export credit agencies in this area? This has been an area of some change in recent years. Initially, some export credit agencies did not wish to cover any risks until after projects were commissioned. Their feeling was that the project sponsors should take the pre-completion guarantees of various sorts from contractors and other suppliers. This partly reflected a view that pre-completion risks were
essentially commercial risks and thus more appropriate to the commercial banks and to contractors then to export credit institutions.

However, this has proved not to be a sustainable position – not least because political risks can clearly arise in the pre-completion phase. More credit agencies have become willing to cover at least political risks prior to completion, and others will look at a wider spectrum of risks during this phase. In this area, as in some others, a more common and consistent approach among export credit institutions has begun to evolve.

Conclusion

Assessing political risks is always difficult. But if it is a challenge for short-term business, it is even more of a challenge where the credit period spreads over 10 years or more. It is clearly impossible to do this kind of assessment in a way that allows total confidence in the results. But this does not mean that risk assessment should not be attempted at all.

The key task in such an assessment is to evaluate the prospects of a country being unable at some future date to service its external debts in a timely way (i.e. the transfer risks referred to earlier). Part of the analysis will be backward looking, to review the country’s track record of debt repayment and its past debt service ratios. But part of it must inevitably be forward looking as well, with all the uncertainties that implies.

This test is not intended as a textbook on country risk analysis. Suffice it to say that those charged with this task, in the export credit agencies and elsewhere, should seek out the best, most reliable, and most comprehensive data, particularly on country’s external debt and, especially, its repayment profile. Particularly important, under today’s circumstances, is whether the external debt is mainly short term a mainly medium to long term. External debt obligations must be measured against possible future export earnings, capital flows, and a series of ratios on debt and debt repayments to GDP, reserves, export earnings and the like.
Forecasting default is even more complicated today than in the past. As the risk of caricaturing the position, in the past a short fall in foreign exchange receipts tended to lead to repayment delays and eventually to rescheduling in the Paris and London Clubs. However, in a more liberalized world, and under flexible exchange rates, foreign exchange outflows and shortfalls may arise suddenly and may primarily reflect short term capital movements. The strains of such a short fall will tend to manifest themselves – initially at any rate – in problems stemming from currency depreciation as buyers and borrowers are forced to come up with additional local currency to purchase foreign exchange to pay their debts, rather than in payment delays. For the export credit agencies, one of the implications is that, again, the traditional distinction between political and commercial risks will be blurred.

The traditional and probably still the most common method of applying country policy in the area of medium and long term credit is to grade countries into one of four to six country categories and to apply a separate ceiling or limit on one’s exposure to each country or, possible to each category. A country limit can be defined in terms of new business signed in a particular year, or in terms of total exposure outstanding, or by the amount of repayments falling due in any particular future year or run of years. The ceiling may also be set with reference to the volume of business the agency has covered in the past, to possible demand, to a maximum percentage of the agency, or some combination of these. But setting such ceilings is not a very exact science, and they are normally reviewed when demand for cover from exporters and their banks exceed supply under existing ceilings. History and experience show that it is not easy for guardian authorities or export credit agencies themselves to run away business on a country that is not experiencing payment difficulties simply for reasons of portfolio balance. Thus, although it is unusual for an export credit agency to be totally off cover for a buying country, it is equally unusual to be totally on cover, without limits or underwriting restrictions of any kind.
Of course, external debt repayment problems can be caused by problems other than foreign exchange shortfalls, and therefore an agency’s country analysis must also consider the risks of political instability and war and civil war. But the key point, based not least on the experience in the Paris Club over the last 20 years, is that the major sources of political risk claims are transfer and convertibility factors.

Two vital tasks in assessing country risk and in making country policy are, first, together the most timely, full and authoritative information possible, and second, to determine the positions of other export credit agencies doing business with the countries in question. Thus, it is not helpful for debtor countries to be other than as open as possible on the classification and publication of information.

This is very important for all actual and potential creditors, not just official ones, and so in the context of moral hazard (i.e. if creditors are to share fully and equally in the burden of debt problems, they should also have full and equal access to relevant information).

The international financial institutions and the IMF in particular – have a role here, for example in facilitating the flow of information and in verifying its accuracy. These institutions should also be involved not only in their current activities of setting limits or particular categories of debt but also in enabling creditors and potential creditors to access the “scores” and in trying to ensure that debtor countries score keeping in this regard is as accurate as possible. This means, among other things, that so-called quasi-government debt should not be omitted from public sector debt statistics or disregarded in setting debt ceilings. Such debt, which stems from understandings and letters of comfort signed by governments with regard to project financing, can represent very large continent obligations.

As part of the new OECD procedures, there is now a model to be used in assigning buying countries to country grading or categories. This will have an
impact directly on the minimum premium rate to be charged for political risks, but individual export credit agencies and countries will still have to decide unilaterally both whether to be on cover or off, and if they remain on cover, up to what amount.

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Chapter – 6

CONCLUSIONS AND SUGGESTIONS

Having gone through the schemes of Exim Bank and ECGC in providing financial cover, insurance and guarantees to the eligible exporters and importers, it is concluded that the services provided by these institutions have been satisfactory, specially among the developing countries, like India. Moreover, the following suggestions at various stages of export credit are given below, if accepted, would definitely be fruitful for the executives and planners of these export credit institutions in order to provide effective and reasonable services in future. Suggestions in matter of short-term export credit facilities are:

1. Whenever the ceiling period of 180 days during Pre and Post-shipment stages is extended to meet exceptional circumstances the out standings, during the extended period should also be treated as export finance and therefore eligible for refinance and concessional interest rates.

2. Whenever the letters of credit are restricted to particular banks, with which the exporter has no account, exporter should be allowed to negotiate the documents through these banks, and thereafter liquidate their loan accounts with these lending banks through cash payment or open a back-to-back letter of credit between these two different banks;

3. Overdue interest is levied on sight bills drawn on importers, whenever these are not retired within the stipulated time. The exporter should draw D/P bills and have their credit terms clearly reflected in their bills of exchange.

4. Delays in settlement of claims in respect of duty draw back can be mitigated/reduced through streamlining of drawback procedures;

5. The bill of lading as certified by the custom authorities, should be treated as “cashable” cheques by banks for liquidation of credits advanced to cover receivable from the government. Custom authorities should also take proper
care in applying uniform codes on the shipping bills in respect of every export consignment.

Exporters have pointed out that the ceiling period of 180 from the date of shipment for repatriation of foreign exchange has proved inadequate due to the following circumstances;

(i) Delay encountered in transhipment;
(ii) Restrictive repatriation laws encountered in certain countries (such as in South America). Prohibiting transfer of exchange before 120 to 180 days after lending of the goods at destination;
(iii) Refusal of buyers to take the delivery of the goods and extra time needed by the exporters to manage their sales/delivery to another party;
(iv) Promotion of new lines of exports;
(v) Time required to dispose of goods during off seasons;
(vi) Delay caused by inspection and preparation of claim reports and occasions when only part payment is made pending resolution of counter claims.

Similarly, even during pre-shipment stage the exporters sometimes find it inadequate the ceiling period of 180 days for submission of shipping documents due to manufacturing delays on account of labour troubles (such as strikes in the port and recession in carpet backing) and shortage of raw material or when shipping documents can be presented to banks only after time consuming "legalization" of the invoices by foreign trade representatives. The Exchange Control Department does grant extensions in exceptional cases in receipt of proper justification but it is also important that the outstanding during the extended period be treated as export finance and therefore eligible for refinance and concessional interest rates.

Following actions are recommended to improve medium and long-term export credit facilities:

1. Finance for covering local costs incurred by exporters overseas on turnkey projects should be given concessional treatment or a part of advance payment should be retained for incurring these expenses;
2. Exim bank’s scheme of joint financing with commercial banks should be extended to cover merchant exporters and consultancy services;

3. Exim bank’s participation limit should be increased to 95 percent to make Indian credit terms highly attractive for big export orders in international markets;

4. There is need to accord more weightage to export performance and potential capabilities, credit worthiness etc. than the usual debt/equity consideration while prescribing credit limits;

5. Duplication of project appraisal by Exim bank and commercial banks under the former’s refinancing scheme can be avoided by delegating this function to commercial banks or reviewing a few proposals selected on spot random sampling bases;

6. Commission paid to Indian banks and the corresponding overseas banks on unsuccessful bids are a distinct distinctive to Indian exporters submitting offers on global tenders and, therefore, should be done away with;

7. Preferential treatment in extending export credits should also be given to several other export oriented activities such as
   a) development of infrastructure, viz. Transport, shipping, packaging, etc.
   b) market research,
   c) collection of commercial intelligence,
   d) modernization and diversification of plant and machinery

   Efforts may also be made to extend the scope of concessional interest rate to cover the financing of import of goods which are ultimately used for the purpose of exports.

8. There is need to streamline existing proceedings for remittances of commission to overseas agents and increase in the rate of the commission in suitable cases.

   In spite of the tremendous increase in operation of ECGC, its coverage of India’s insurable exports over the past two decades has not exceeded 20 percent. In view of the gradual shift in favour of shipments of non-traditional goods on
credit terms and considerably large volume of insurable exports. Yet to be covered. Following suggestions are offered to improve the activities of the corporation:

a) Premium rates could be reduced considerably by resorting to “group insurance” as practiced in Japan, rationalizing the premium structure by examining the probability of loss on various types of risks insured by ECGC and introducing as a further incentive a non-claim bonus schedules;

b) Fixation of credit limits on foreign buyers may be done away with and that these customers be grouped into “good” or “bad” as in Japan;

c) The corporation should take over from the exporters the responsibility of instituting legal proceedings against the defaulting importers’ and establish suitable machinery to certify exporters’ compliance with contract terms, including “quality”, at the pre-shipment stage;

d) The ECGC share of risks under financial guarantees should be increased from 66.67 percent to 80-85 percent so as to minimize banks’ reluctance to advance credits to exporters.

Most of the claims arise because of the delay in repatriation of funds from the developing countries where our exports are increasing. These are countries like Nigeria, Sudan, Tanzania, Zambia, Uganda, etc. Even after the buyers have made payment in local currency, ECGC under its policies settles the claim after a certain waiting period which enables the Indian exporters to get more working funds.

With regard to settlement of claims let us emphasize that ECGC has clearly categorized the risks which are covered by it. It will be observed that all the risks involved in an export transaction are not covered by the ECGC and only payment risks as mentioned in the policy are covered by it. Some of the risks which are not covered by ECGC are:

(i) Non-compliance of contractual obligation by the exporter.
(ii) Risks covered by general insurers.
(iii) Default of an Agency or the exporter including the collecting bank.

It is, therefore, necessary for ECGC to examine with the support of documents furnished whether the loss sustained by the exporter is due to causes,
which are specifically covered under the policy. Claim is admitted and paid by the ECGC if the losses are due to the causes covered under the policy.

A suggestion has been made that the claim should be paid quickly against exporter’s indemnity. Here it is mentioned that claims are paid by ECGC as and when they are admitted in terms of the policy and if the exporter furnished all the relevant information in time there should normally be no delay in setting the claim. Under the circumstances there does not appear to be any need to pay the claim. Under the circumstances there does not appear to be any need to pay the claim against indemnity. In any case it is the normal policy of the credit insurers to allow for some waiting period in settling claims and the claim could be paid only after the waiting period is over.

It has been said on various forums that the exporter has to pay double premium; once under the policy and again under the guarantee. While ECGC gives the policy it gives protection to the exporter against certain risks which may be due to commercial or political risks in respect of payment due to the exporter from the buyer. ECGC gives guarantees to banks to enable them to give guarantee is intended to protect the Indian banks against the exporter’s non-payment which might arise due to the ECGC not having covered the risks under the insurance policy.

Exim bank through its wide network of alliances with financial institutions, trade promotion agencies, information providers across the globe assist externally oriented Indian companies in their quest for excellence and globalization. Services include search for overseas partners, identification of technology suppliers negotiating an alliance and consummating a joint venture.

It is also true and unfortunate that the bank of such a high profile which is particularly dealing with export-import business has barely nine branches all over the country. In twenty one years the Exim bank has opened its branches with its head quarter in Mumbai, Ahmedabad, Bangalore, Chennai, Guwahati, Hyderabad, Kolkata, New Delhi, Pune as regional branches. It is a matter of
great concern that a bank on which export import is dependent has such a negligible number of branches in such a large span of time since its incorporation in 1982.

1. The Bank is actively engaged in exporters, foreign entities, and commercial banks and other. It should ensure that adequate financial assistance is also extended to non-conventional products/projects using sophisticated technical know how.

2. The bank should also provide loans at very concessional rates to entrepreneurs who wish to enter into export import business. This will result in a balanced regional growth in the country.

3. Necessary steps are required to be taken to avoid delay caused due to procedural requirements so as to ensure that the proposed projects are expected in time.

4. Need has also been felt for the reorganization of the Board of Directors (BOD) to include persons from various fields having varied experience. The Managing Director (MD), who is a full time officer of the Bank, must be a man with experience in financial matters and should not be changed frequently. This is necessary to maintain continuity in the operational policies of the bank. A man with the proper knowledge of financial matter will be in a better position to control, guide, plan and supervise the operations of the bank. Liberal powers should be delegated to him to enable to execute his functions more effectively. In turn, he should be made accountable to the Board of directors for his actions.

5. In order to avoid redtapism and delays the powers of the competent authorities for sanctioning loans should be enhanced liberally. Keeping in view the enhancement in funds made necessary by the rise in prices, need for adoption of improved technology etc.

6. It has been observed that the bank still believes in security oriented approach in advancing loans, while it is true that financial assistance can
not be made available without enough security margin. There is, however, a need for relaxation on this account as well. Emphasis is needed on the development of export sector with distinct bias in favour of the growth of small industrial units which are economically viable, technically feasible and which generate employment, and have future growth potential.

7. Persons who are experienced and technically qualified but are unable to contribute their equity should be provided liberal assistance for the execution of their projects, which are economically viable.

8. In order to train and educate prospective entrepreneurs for the setting up of export oriented units in the country, the bank should start short term entrepreneurial programs in collaboration with Management Institutes and National Productivity council. The officers of the bank should also be sent for training for updating their knowledge in financial and technical areas. This would help the smooth and fast discharge of their duties to the small and new exporters.

9. In order to provide facilities at the doorstep of the small and medium exporters, every state should have Exim bank branch fully equipped with sufficient and competent staff with adequate powers delegated to them, so that the borrowers may not have to waste their time in frequent visits to the Head office/Regional office for every small matters.

10. The expenditure on publicity ranks very low in the Exim bank as compared to other banks/corporations in the country. It should give wider publicity to its schemes especially in export oriented/industrial areas of the country.

11. Efforts should be made by the Exim bank to focus its attention to new and small exporters, who are in the process to enter into export business.

12. Efforts should be made towards the recoveries of the amount of loan sanctioned for long and medium term export business on the expiry of such term so that huge amount of capital could not be blocked.
13. Short-term loan should be provided for a reasonable extent as it carries higher rate of interest and also the rate of interest should be reduced to complete other institutions.

14. Bank should organize orientation programs regarding future prospect procedure and policies of export financing. Bank should continue a particular program over a period.

15. Bank’s income from investment made is meager. Thus bank should avoid investing fund for less productive purposes. Bank should provide more and more financial assistance to gems and jewelry trade, which yields maximum foreign exchange for the country.

16. Bank’s major expenses are in the form of debt service, which reduces its profitability. Thus bank should raise its paid capital for working capital requirements.

   Export credit is a complex commercial activity, which require proper planning and management. In this field, the Exim bank of India is doing a good job in providing easy availability of money in desired quantum. An important requisite of export credit is that the money should be available at cheap rate of interest. Moreover, it should be risk free and procedurally convenient.

   The Exim bank of India needs more strengthening of its operations particularly investment finance, credit to overseas buyers so as to enable Indian promoters to finance equity contribution in more and more joint ventures abroad and also to enable the overseas buyer to pay for capital goods imported from India. Similarly, lines of credit sanctioned to overseas financial institutions, foreign governments and agencies, also need to be streamlined and liberalized to facilitate Indian exporters.

   Increased attention of Exim bank is also needed in export bill discounting extending re-lending facility to overseas banks and direct financial assistance to Indian exporters to extend term credit to the overseas importers of Indian capital goods.
**Exim Bank: Vital functions Omitted:**

Exim Bank, no doubt, has been assigned as many as 28-wide ranging functions, from granting loans to turnkey export units, to assisting imports of goods and services, from buying and selling of foreign exchange to investing in foreign exchange, to investing in stocks and shares and also doing any other kind of business that the Government authorized from time to time. However, there are some glaring omissions in the bank’s functions as enunciated at present. These included to list a few, day to day exports, borrowing of funds from international markets, tapping of non-resident investment, assistance to small-scale industries etc. And also it is observed that the role as envisaged for Exim bank is inadequate to meet the gigantic challenges on the export front.

One important area that needs constant attention is day to day cash exports. Without raising these exports depending on the behaviour of markets abroad and availability of export surpluses at home, it will not be possible to make any noticeable dent in exports.

In view of the country’s growing need for overseas investment, Exim bank, as the single largest bank from India, would be in a position to borrow in international markets at best possible terms. The bank could borrow in diversified currencies, thereby reducing exchange risks. This could be done, by systematically collecting data on forward commitments of receivables and payables in respect of overseas transaction. The Exim bank must develop this mechanism.

Most banks have no foreign dealings and are ignorant of international currency, markets and their rates. They supply to their clients rates quoted by some other banks or a broker. It is this area that Exim bank could enter in a big way to help banks by way of training their personnel and by developing dealing rooms.
We look at Exim bank as an institution capable of mopping up huge deposits from overseas Indians. Efforts made at present as well as information being supplied abroad on the Indian tax laws are insufficient and Exim bank can fill these gaps effectively.

Another area, where Exim bank can play a vital role is promotion of industries with high value-added element, such as diamonds or those with 100 per cent export commitment.
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