CHAPTER - 2

EXPORT FINANCING POLICY :

COMPARATIVE ANALYSIS OF INDIA AND SELECTED DEVELOPED COUNTRIES.

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(a) Export Financing Policy in India

This chapter provides an analytical background of policy-framework, which provides a proper perspective for examining the behaviour of export finance in the country. It is divided into two parts : the first part examines the main planks of export finance policy of India, the second part presents a comparative analysis of export financing policy of India with that of four selected developed countries.

The financing of foreign trade in India was mainly done by `Exchange Banks´ now known as `Foreign Banks´ during the British period. Their operations were of two types: (1) Financing of imports and exports (2) Financing the movement of goods from inland distribution centres or to Indian ports. In case of exports of goods, most of the bills between India and Europe, the U.S.A. and colonies were drawn in sterling. Those between India and Japan were drawn in Yen and between India and China in Indian rupees. Majority of the bills were drawn on 90 days usance basis and only few on sight basis. In some cases letters of credit were opened by importers at the other end. For the purpose of financing of usance bills, the bills were sent by the bank to the exporting country for acceptance and thereafter discounted in the open market enabling the exchange banks to recieve payment in sterling or yen, which they paid in rupees in India. Thus, only at a post shipment stage exporters were financed by the exchange banks.

Evolution of Export Financing Policy

After independence, various mesures were taken to augment the exports, but all those were towards incentives other than export credit upto 1958.

In 1957, an export promotion committee was appointed to make recommendations for the stepping up of exports. Foreign trade Board was also set up by the government to coordinate export promotion policies. The Export Risk Insurance Corporation was consequently registered on 30 July 1957 to administer the scheme of export risk insurance.

The first step in the direction of enabling banks to extend credit facilities to exporters on a more liberal basis was taken by Reserve Bank Of India (R.B.I.) when it was decided to bring export bills within the purview of the Bill Market Scheme with effect from 1st October 1958 under Section 17 (4) (C) of the Reserve Bank of India Act, eventhough Bill Market Scheme was introduced as long back as in January, 1952. Under the Scheme, the banks were to grant demand loans to their constituents against the security of eligible export bills and to convert these loans into eligible usance promissory notes, as was being done under the Bill Market Scheme. These Promissory notes were accepted as Security by R.B.I. for advance under the Scheme. While no concession in interest rates was permissible on such advances. Half of the amount of stamp duty on the usance promissory notes lodged with it as security was to be borne by R.B.I.. The said facilities were available only at Bombay and

Calcutta offices of R.B.I. in regard to bank's loans against export bills at these centres. The maximum permissible period for realisation of export proceeds and advance against export bills was fixed at 90 days from the date of exports. From January 1959, to 1961 the scheme was implemented in a slightly modified form in regard to export bills drawn in a foreign currency and held as security in the relative loan accounts. Banks were given an option of either requiring the parties to cover the exchange risks or requiring them to maintain in a loan account, a margin of not less than 25 per cent of the amount of bills as a cover against the risk in the export financing. However from 1961 the matter was left to the discretion of the banks.

In October 1959, the Scheme was further liberalised as R.B.I. decided to bear the entire amount of stamp duty on the usance Promissory notes lodged with it as security. To help the small exporters the minimum amount that can be borrowed by an eligible bank at any one time and the minimum amount of an individual Promissory note to be accepted as security under the scheme in regard to export bills was Rs.1 lakh and Rs.10000/- respectively in place of earlier limits of Rs.2 lakh and Rs.20000/- during October, 1958. In January 1961, the minimum amount of an individual Usance Promissory notes to be lodged with R.B.I. was reduced to Rs. 5000/-. But the scheme was not successful and exporters were not willing to execute usance promissory notes after having tendered to banks for the purpose of negotiating documentary bills which has been sent abroad for acceptance and collection. Under the existing legislation, R.B.I.

could not make advance on the security of promissory notes signed by the borrowers. R.B.I.was also not authorised to grant loans for a period longer than 90 days.

The study Group on Export Finance set up by the Government of India in 1960, recommended that R.B.I. may consider the desirability of extending loans against usance export bills on the security of only the promissory note of a scheduled bank, instead of against the promissory note of both schedule bank and the exporter. It also recommended to extend the maximum permissible period of advance (Section 17(3) (b) of RBI Act) to 180 days as against 90 days. The bill maturity period was, accordingly, extended to 180 days.

From 23 March 1963, R.B.I. introduces the Export Bills Credit Scheme in terms of which the Bank granted advances to eligible Schedule banks against their promissory notes repayable on demand and upon their declarations of holdings of eligible usance export bills drawn in foreign currencies or Indian rupees and purchased, negotiated or discounted by them. This scheme widened the range of collateral against which schedule banks could borrow from the Reserve Bank.

It was felt during the period 1962-63, that India was in a position to export engineering goods and to some extent capital goods which required medium term finance. Hence, the necessity arose for the banks to provide medium term credit to the exporters so that they may offer goods to overseas importers on competitive terms. To enable this, the Refinance Corporation for industry was merged with the Industrial Development Bank of India (IDBI) in 1964. IDBI then introduced a scheme for refinancing export bills with a maturity of over 180 days but not exceding five years. The I.D.B.I. provided refinance against medium term export credit extendend by banks and other financial institutions at a rate of 4.5 per cent with a condition that the ultimate exporter is not charged more than 6 per cent. In August 1967, the facility for refinance was extended to bills maturing within 7 years in `deserving cases' and even upto 10 years in `Special deserving cases'. Since the introduction of Scheme in 1964, upto June 1970 total credit provided was only Rs.10.28 crores of which Rs.6.73 crores was actually disbursed.

In 1965, Packing Credit Scheme was introduced for financing the exporters and refinance facility for specified commodities was extended to the commercial bank's Packing Credit advances to the exporters under section 17(4) (C) of the R.B.I. Act.

In August 1967, the Reserve Bank of India introduced major changes in its policy to bring about substantial reductions in the cost of export finance. Accordingly, it was announced that eligible schedule commercial banks could get refinance irrespective of their net liquidity ratio, at a preferential rate of interest of 4.5 per cent per annum in respect of packing credit advances for export of engineering and metallurgical products and at the bank rate in respect of Packing Credit advances for export of products and in respect of Post Shipment Credit. Simultaneosly, ceiling was imposed on the rates of interest on export credit to be extended by banks. The banks were advised not to charge more than 6 per cent in respect of Packing Credit advances to the exporters of engineering and metallurgical products and not more than 8 per cent in respect of Packing Credit advances to other exporters and Post shipment Credit. The ceiling rate on Packing Credit advances to other exporters and Post shipment finance was subsequently reduced to 7.5 per cent by the end of January 1968.

With all these amendments in export credit policy from time to time, refinance availed of by the Scheduled Commercial banks under the Export Bills Credit Scheme went up from Rs.18 crores in 1963-64 to Rs.68/-crores in 1967-68. Similarly, outstandings also went up from Rs.4/-crores to Rs. 19/- crores during the above period. The outstanding against the export bills purchased and Discounted by Scheduled Commercial banks, from exporters rose from Rs. 49/- crores in 1960-61 to Rs.131 crores in 1967-68.[1] In the year 1965, Export Credit and Guarantee Corporation, apart from providing insurance against commercial and Political risks, continued issuing of Pre-shipment and post shipment export credit guarantees.

The Reserve Bank of India by its directive no.DBOD Schedule 329/C/96-98 dated 2 March 1968 first prescribed ceiling rate on export credit with details of the type of credit and quantum of subsidy payable. The ceiling rate for export credit on Pre-shipment, Post-shipment and even Deffered payment credit was fixed at 6 per cent. The subsidy was paid in respect of export credit made available by banks with effect from March 3 1968 for the period and at the stipulated rate of interest as notified by R.B.I.

The Reserve Bank of India by its circular Ref. DBOD No.BM 648/C-297(MJ-30) dated 20 April 1970 clarified that in terms of the Export Credit (Interest Subsidy) Scheme, interest subsidy @1.5 per cent is payable only on credit provided by banks to exporters in the form of packing credit or post shipment credit as defined in the scheme at the stipulated rates of interest and for stipulated period, provided:

(1) the export credit was made available on the terms and conditions set out under the scheme,

(2) the pre shipment credit resulted in the export of goods within a reasonable period,

(3) the export bills (Post shipment advance) purchased were realised within the stipulated period which is not beyond 180 days form notional due date.

The rate of interest subsidy payable to banks was raised to 3 per cent with effect from August 1976, and with effect from 1/3/1989 till date the rate is 5 per cent for pre shipment finance and 3.85 per cent for post shipment finance. Presently, in respect of Demand bills, subsidy is payable for the normal transit period in respect of each country as prescribed by FEDAI with the approval of R.B.I. and it will be calculated from the date of purchase/negotiation of the export bill (Ref. FEDAI circular AR 14/76 dt. 7-12-1976). In case of usance bills, subsidy is payable for the number of days constituting the normal transit period plus the usance period of the bill and grace period where applicable. The maximum period for which subsidy payable both in case of Pre shipment and Post shipment finance is 180 days from the date of disbursement and from the date of shipment respectively. However, in case of export credit extending beyond

180 days, subsidy will be payable for the full period of the credit approved by the Exchange Control Department of Reserve bank of India. The Scheme of Interest Subsidy is administered by Reserve bank of India on behalf of Government of India under section-17 (11A) (b) of the Reserve Bank of India Act. The funds for the subsidy are provided from out of the Marketing Development Assistance of Ministry of Commerce.

An application for the payment of subsidy should be made in respect of each quarter of an year in a prescribed form and should be forwarded to Chief Officer, Department of Banking Operations and Development, Reserve Bank of India, Central office, Bombay by the Head office of the bank. Reserve Bank of India vide its circular Ref.DBOD No.BM BC 30/C 297 (T)-71 dated 22 March 1971 and DBOD No. BM BC 120/C 297 (T)-71 dated 7 October 1971 stipulated that bank's entries and registers are to be audited by the qualified auditors entitled to audit its account and the certificate in the prescribed form should have to be sent to R.B.I. before 30 September every year to the effect that the entries in the register(s) and other relevant books and claims made by the bank in respect of subsidy in the previous calendar year were correct.

The export sector has been given a preferential position by the Reserve Bank not only in the matter of refinance and subsidy against export credit given by banks, but also by way of grant of relaxations in the application of certain credit control measures, in the interest of export promotion. The more important of these relaxation relate to the Credit Authorisation Scheme. The Credit Authorisation Scheme (CAS) was introduced in November

1965 as a measure to align bank credit with plan priorities. Its thrust has been to prevent excessive flow of credit to large borrowers with a objective to curb wasteful credit expansion and to keep it under control.

Since July 1968, the requirement of obtaining prior authorisation from the Reserve Bank by banks under the Credit Authorisation Scheme is not applicable to sanction of credit facilities by way of Post shipment Credit. In case of Pre-shipment credit, this requirement was waived in July 1968, but was reimposed in July 1974. The objective of bringing Preshipment Credit within the purview of the scheme was to ensure that the credit limits were reasonable in relation to the past and projected exports and that the total credit limits were related to the total projected production.

Banks are granted additional powers in December 1979, wherein, they had the discretion to release pending authorisation by R.B.I. an amount upto 10 per cent of the authorised Packing Credit limits subject to a maximum of Rs.25 lakhs. Further, banks can also allow temporary excess drawings in these limits or enhance them without prior authorisation upto 10 per cent of the limits already authorised or Rs.25 lakhs whichever is less, for a period not exceeding three months.

In March 1980, the discretionary powers of banks in respect of Packing Credits were further enlarged. Accordingly, banks can allow additional Packing Credit limits upto 15 per cent (as against 10 per cent earlier) of the existing Packing Credit limits or Rs.25 lakhs, whichever is less, for a period not exceeding three months.

As per the Working Group to review the system of Cash Credit (Tandon Committee Report of 1975) the Reserve Bank of India had directed the banks to adopt the second method of lending for assessing the borrower's working capital requirements. However, in October 1981, in order to encourage exports, banks have been advised to adopt a flexible approach in respect of exporters who are unable to bring in the aditional contribution required under the second method of lending in respect of additional credit limits sanctioned for specific export transactions.

PRE - SHIPMENT FINANCE

The new Scheme of Pre-shipment Packing Credit under Section 17 (3A) of R.B.I. Act introduced in February 1969 and effective till date, replaced the old Packing credit Scheme of 1965. The Export Credit (Interest Subsidy) Scheme 1968 defines Pre shipment Packing Credit as, "Any loan or advance granted or any other credit provided by an institution to an exporter for financing the purchase, processing or packing of goods, on the basis of letter of credit opened in his favour by an importer of goods outside India, or a comfirmed and irrevocable order for the export of goods from India having been placed on the exporters unless lodgement of export orders or letters of credit with the institution has been waived by Reserve Bank of India".

Pre shipment finance is nothing but a working capital finance (mainly inventory finance) extended to an exporter in anticipation of his exporting the goods. Basic purpose of extending Pre shipment finance is to enable the eligible exporter to procure/process/manufacture/warehouse/ship the goods meant for exports. It refers generally to a funded advance, but it can also be non-funded as for example, opening of back to back letters of credit, issue of various types of guarantees etc. The Packing Credit loan is clean in the beginning, but once the exporter procures the material the lending bank automatically gets lien to the extent of bank finance.

As per Interest Subsidy Scheme and R.B.I. directives, banks have to maintain seperate account for the finance against different contracts or letters of credit. As an exception to this general rule, R.B.I. has permitted banks to maintain Packing Credit account on "Running Account" basis in respect of certain selected commodities and items produced in free Trade/Export Processing zones and 100 per cent export oriented units. Running account facility means that the first debit in the account can be set off by first credit. It is worth noting here that the Packing Credit advance is to be liquidated either by actual exports i.e. on presentation of export bill or from the proceeds of payment recieved in the Duty Draw Back, Cash Compensatory Support Air Freight Subsidy etc. Proceeds of undrawn balances which represents export earnings can also be utilised for repayment of Packing Credit loan. Packing Credit finance can be shared by merchant exporters and manufacturers/Sub-Suppliers etc. When a merchant exporter or export house receives a confirmed export order or letter of credit and he needs to procure the goods or get them processed/ manufactured by another supplier or manufacturer, he can share the facility of concessional finance with such sub-supplier/supporting manufacturer. In such a case, the merchant exporter has to give undertaking for not obtaining Packing Credit facility against the said export order. It can be disbursed to the sub-supplier/manufacturer either by a back to back L/C or on the advise from merchant exporter.

Indian exporter may participate in an International exhibitions abroad. Exhibited goods may be sold by them directly or through Trade Fair Authorities of India . Here, bank can extend Packing Credit finance for goods meant for exhibition and sale abroad in the first instance as a normal domestic credit and after sale is completed, they can be allowed the benefit of concessional rate of interest upto the stipulated/ eligible period by way rebate. Such advance should be given in separate account so that it can be clearly identified and purpose can be established.

In case of Consultancy Services, pre shipment can be extended to exporter to enable them to undertake preliminary arrangements such as mobilising technical personnel and other staff and training them. Deemed exports like supplies made to IBRD/IDA/ADB or UN organisation aided projects and programmes are eligible for concessional financial facilities both at pre supply and post supply stages. Packing Credit facilities can be extended to eligible deemed exporters on lines similar to physical exports with necessary precautions (Ref. R.B.I. circular DBOD No. BM.BC.81/1. 297-M. 73 dated 18 July 1973, DBOD no. EEC BC 57/c 297 P-75 dated 14-8-75 and DBOD no. EEC BC 12/c 297, (C-11) 76 dt.25-1-1976.

Reserve bank of India vide circular Reference DBOD. BM.

1989/c-297A-68 dated 7 November 1968, clarified that the period for which a Packing Credit advance may be given by a bank depends upon the circumstances of individual case, such as time required for procuring, manufacturing or processing and shipping the relative goods. So it is for the bank to decide for the period to be allowed. Banks, no doubt as far as possible seek to restrict pre shipment credit to 90 days except in the case of engineering goods whose manufacturing process requires a longer period. From April 1974, R.B.I. had fixed the maximum period for pre shipment packing credit finance to 90 days. However, in case of certain items like coffee, cotton textile, diamonds, dressed bristals etc. the Pre shipment may be given at a stipulated rate of interest upto 90 days plus an extension of 45 days at a higher stipulated rate of interest, if the delays are due to the reasons beyond exporter's control. Reserve Bank of India vide its circular nos.DBOD. ECC.BC. 90/C 297P-75 dated 23-10-1975 and ECC.BC.143/C 297P-80 dated 9-12-1980 given the list of 56 export items approved by R.B.I. for the purpose of stipulated rate of interest on pre shipment credit upto 180 days and for further 90 days with the prior approval of Reserve Bank of India.

With effect from 1st March 1986, Reserve Bank of India has allowed to grant pre shipment advance to all types of commodities for a maximum period of 180 days at concessional rates. This period can be extended upto 270 days with a prior approval of Reserve Bank of Inaia. For such extended period from 181 to 270th day, the rate of interest chargeable would be at a higher slab as stipulated by R.B.I. from time to time.

Reserve Bank of India vide its circular Ref. DBOD BM.254/C

297-69 dated 14 February 1969 stipulated that pre shipment credit should be granted to the bonafied exporter either on basis of letter of credit opened in his favour or firm export order. But with a view to imparting flexibility in the operation of Packing Credit advance, the Reserve Bank of India made certain relaxations relating to the substitution of contracts. Reserve Bank of India vide their circular Ref.No.ECC.BC.19/C 297 P-76 dated 9 February 1976 states that in cases where expoerters have forwarded orders of the same kind of goods from the same country, bank may accept export bills under substituted contracts in adjustment of Packing Credit advance made in respect of another order provided the goods for export remain unchanged and the proceeds in respect of shipments are received in an approved manner and within the prescribed period. The stipulation that goods financed by packing credit should be exported to the same country is waived and in cases where the exporter is not able to export against the original contract due to reasons beyond his control, banks have discretion to adjust a packing credit advance by negotiating export bills relating to another contract provided the goods financed by the advance are exported under the substituted contract within reasonable time. However, the stipulated rate of interest and interest subsidy will be available in such cases only upto the stipulated periods from the date of advance.

Not only that, but Reserve Bank of India from time to time has waived the requirement of export order or L/C for availing the Packing Credit and has also allowed keeping running accounts in respect of following items.

(1) Tea

(2) Jute

(3) Cashewnuts

(4) Hides and Skins and allied finished products including finished leather.

(5) Coffee

(6) Tobacco

(7) Dressed Bristals

(8) Machine Tools

(9) Diamonds

(10) Isabgol

(11) Precious and semi Precious stones

(12) Mineral Ore.

(13) Marine products.

(14) Sea food.

(15) Silver Ornaments.

(16) Carpets.

(17) Readymade garments.

(18) Items in Free Trade zone and Export Promotion zone.

(19) 100% Export oriented units.

While studying the quantum of finance available under the pre shipment Packing Credit to the exporters, it was found that there is no fixed formula for determining the quantum of finance available against specific order or letter of credit. Normally, the Pre shipment advance granted to an exporter should not exceed the FOB value of the goods or domestic market value of the goods, whichever is less. However, to that also there are exceptions like:

(a) The pre shipment advance can also be made available to the extent of domestic market value of the goods, eventhough, such value is higher than the FOB value of the goods, provided the goods are covered by Export Incentive Scheme of Government of India/Duty Drawback Scheme. In such cases, excess advance should be liquidated from the proceeds of

Cash incentives/Duty Drawback proceedings.

(b) Reserve Bank has permitted banks to grant Packing Credit advances to exporters of Hps ground nuts, deoiled and defatted cakes against the security of oil seeds and/or other raw materials to the extent of the value of raw materials required, eventhough the value thereof exceeds the value of the export order.

It is for the first time in August 1967, that RBI had stipulated the ceiling on interest rate for export credit viz. 6 per cent in respect of packing credit for export of engineering and metallurgical products and 8 per cent in respect of packing credit for export of other products and export bills. These ceilings were applied irrespective of the facts whether lending bank is getting refinance from RBI or not. It is worth noted over here that prior to the enlargement of the scope of Section 17 (3A) of Reserve Bank of India Act in February 1969, the Reserve Bank provided refinance to banks under the Bill Market Scheme for Packing Credit for export of specified commodities under Section 17 (4) (C) of R.B.I. Act. In March 1968, the Reserve Bank vide their circular Ref.no.DBOD Sch.327/C/96-68 dated 2 March 1968 fixed the ceiling at a uniform rate of 6 per cent for all types of export credit both at pre shipment and post-shipment stages. In order to bring about a proper alignment of the structure of interest rates charged by banks on export credit, the ceiling rate was raised to 7 per cent from 16 April 1971 which remained in force upto 15 November 1973. The interest rates from 16 November 1973 to 18 April 1974 was 8 per cent. Further, in April

1983, the rate of interest for pre shipment packing credit advance upto 90 days reached 12 per cent. With effect from 1 August 1986, the rate of interest was lower down to 9.5 per cent. Banks can also grant Pre shipment credit at the concessional rate against Cash incentives etc. provided the credit covered by an appropriate guarantee by ECGC. The present rate of interest structure for Pre shipment packing credit advance which came into force from 1 March 1989 is given below:

Period.	Rate of interest
(1) Upto 180 days	7.50 %
(2) Beyond 180 days upto 170 days	9.50 %
(3) Against cash incentives etc. covered by ECGC upto 90 days	7.50 %

For Pre shipment Credit facility to Sugar Mills for sugar supplied to Indian Sugar Industries Export Corporation Ltd. for export purpose with or without production of export order or letter of credit, the interest can be charged at 7.50 per cent upto 60 days. ISIEC is entitled for further period of 45 days if necessary @ 9.5 per cent.

At the time of sanction of individual Packing Credit advance, the following documents are collected by the bank from the exporter:

- Export Credit Agreement.
- Hypothecation / Pledge agreement.
- Corporate / individual guarantees from company/ firm / partners/ directors / sureties etc.
- Necessary undertakings like for payment of insurance premium, non-encumbarance of stocks, payment of ECGC Premium, Waiver of

interest change notice etc.

- Formalities connected with Registration charges with R.O.C. where necessary.

Export Credit Guarantee Corporation provides guarantee to the banks extending Pre shipment finance to the exporters. They have technically come to be known as Packing Credit Guarantees. Packing Credit Guarantees consist of two types,

(1) Individual Packing Credit Guarantee which is applicable to cover particular Packing Credit loan or advance granted to exporter where cover available is 66.66 per cent and premium payable is 7.5 per cent per month.

(2) Whole Turnover packing Credit Guarantee (WTPCG) introduced in 1976 with a view to providing guarantee cover on all India basis for all the Pre shipment advances granted by a bank. The cover available here is 75 per cent and the premium charged at 3.5/5 per cent per month. To cover bank's advance against cash Assistance and Duty Drawback at Pre shipment stage, Export Production Finance Guarantee is available. Finally, to cover non-funded facilities sanctioned at pre shipment stage, Export Performance Guarantee is available.

POST SHIPMENT FINANCE

Interest Subsidy Scheme defines Post Shipment finance as, " Any loan or advance granted or any other 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 realisation of export proceeds and includes any loan or advance granted to an exporter, in consideration of or on the security of any Duty Draw Back or any Cash payment by way of incentive from the Marketing Development Fund or any other relevant source".

Post shipment finance is basically an export sales finance, meant for financing export sales recievable from the date of shipment of goods to the date of realisation of export proceeds. It is extended to the actual exporter who has exported the goods or to an exporter in whose name the export documents are transfered.

Post shipment finance can be secured or unsecured. Since the finance is extended on the evidence of export shipments and banks obtaining the documents of title to goods, the financial facility extended becomes selfsecured. In few cases like advance against undrawn balances etc. it is unsecured in nature. This is a funded advance. But in a few cases like financing of project exports, where performance guarantee is to be given, it is non-funded advance. Post shipment finance can be extended upto 100 per cent of the invoice value of goods. However, the banks are free to stipulate margin requirements as per their usual lending norms.

Post shipment finance can be a short, medium or long term finance. In case of short term finance, the finance is available to the exporter maximum upto 180 days. Credits extended beyond 180 days upto five years are classified as medium term finance and those beyond five years upto ten years are classified as long term finance. The medium and long term finance to the exporters was provided by banks since the year 1964, 1967 respectively.

Post shipment finance like Pre shipment finance is extended at a concessional rate of interest. Banks can extend post shipment finance at a concessional rate upto normal transit period/notional due date (normal transit period + usance + grace period if any). As per Rule 8 of Foreign Exchange Regulation Act, the amount representing full export value of goods exported to any country must be realised by exporter within 6 months from the date of export of goods. However, realisation period in case of exports to Indian owned warehouse abroad with the prior approval of R.B.I. will be 15 months from the date of export of goods. Foreign Exchange Dealers Association of India (FEDAI) vide circular no. AR 1/84 dated 6 January 1984 (Rule-7) stipulated the normal transit periods for the purpose of bills drawn in foreign currencies and Indian rupees. The normal transit period (NTP) is nothing but a period required for reaching of export documents to the importer's banker Export bills payable at sight are entitled for concessional rates of interest (presently 7 per cent p.a.) for a maximum period of NTP. Concessional rate of interest has to be charged by banks upto the actual date of realisation of export proceeds.

The ceiling rate of interest under the Export Credit (Interest Subsidy) Scheme are given below :

Sr.No.	Period	Interest rate (per cent) p.a.
1.	2-3-1968 to 15-4-71	6
2.	16-4-1971 to 15-11-73	7
3.	19-11-73 to 18-4-74	8
4.	19-4-74 to 22-7-74	9

5.	23-7-74 to 24-9-74	10.5
6.	25-9-74 to 28-2-78	11.5
7.	1-3-78 to 30-6-80	11
8.	1-7-80 to 1-3-81	11.85
9.	2-3-81 to 31-7-86	12.5
10.	1-8-86 to 28-2-89	9.5
11.	1-3-89 to 31-3-90	8.65
12.	1-4-91 onwards	7%

The maximum period for finance at a concessional rate of interest under post shipment finance was fixed to 180 days since the implementation of Export Credit (Interest Subsidy) Scheme in 1968 upto 18 April 1974. Since 19 April 1974, this period was changed to 120 days for exports to Western Hemisphere and other countries to 90 days. It was again from 1 Feb., 1979 the maximum permissible period for export finance extended to 180 days which comprises of usance period, transit period and grace period wherever applicable. Here it should be clear to us that in case of Demand bills the concessional rate of interest is applicable for transit period as specified by FEDAI. If the demand bill is not paid within transit period, the interest rate applicable is a ceiling rate for exports.

The post shipment credit is extended to the exporters against the actual exports. The separate limit is sanctioned to the exporters for this purpose. The advance against exports is to be settled only against the export proceeds. If the export proceeds are not recieved within statutory period, such cases are to be reported to the R.B.I. by the financing banks in a `XOS' statement submitted on last day of March, June, September and

December every year. The XOS statement enebles R.B.I. to initiate necessary action under FERA against the recalcitrant exporters.

Post shipment finance limit sanctioned by the bank to the exporters is fixed in accordance with guidelines of R.B.I., Interest Subsidy Scheme, FEDAI rules, usual R.B.I. norms, bank's policies and internal procedures. Once the post shipment finance limits are sanctioned, main/control documents are obtained from the exporter concerned. The nature of documents vary depending upon the type of facility sanctioned and terms of the sanction. They may include one or more of the following:

(1) A comprehensive post shipment credit agreement.

(2) Agreement of Hypothecation of book debts (Export receivables).

(3) Power of Attorney to receive the export receivables.

(4) Pledge letters of agreements in respect of documents of title to goods covering export shipments.

(5) Insurance / Contingency insurance policy covering export shipments.

(6) ECGC's appropriate standard policy or specific policy.

(7) Corporate / Personal guarantee.

(8) Necessary undertaking letters.

(9) Compliance of registration of charges formalities (where necessary).

(10) Other documents as per nature of sanction / terms of sanction.

As per the prevailing exchange control Regulations, with effect from 1 Jan.1984, R.B.I. has made some important changes in operational guidelines for the export bills. It is stated that if any export bill denominated in foreign currency purchased/negotiated is not paid within 30 days after normal transit period in case of sight bills and 30 days after notional due date in case of usance bills, the foreign currency amount has to be reversed from export bills. Banks convert the foreign currency liability into rupee liability and effect "Notional Sale". The rupee amount so converted must be shown in the advance portfolio under the head, "Advance against overdue export bills recievable" account. At the time of actual payment of the bill, the said bill should be repurchase by the banks. The exchange loss or profit whichever arrived at might be passed on to the exporter.

Various types of Post shipment finance.

I. Negotiation of export documents under export letters of Credit

The export finance also available to the exporter at a post shipment stage through negotiation of bills drawn under letters of credit. By negotiating the documents drawn under the letters of credit, the negotiating bank is acting as an agent of the overseas bank who has opened and established a letter of credit. By negotiating the documents, negotiating bank can make the payment to the exporter immediately and negotiating bank in turn will get reimbursement as per the mode stated in the letter of credit. However, if documents presented do not conform with the terms and conditions of the letter of credit, the banker depending upon the credit worthiness and status of the exporter, may opt to send the documents on collection basis or make payment under reserve against an indemnity submitted by an exporter to reimburse the negotiating bank in case the documents are refused by drawees due to the discripancies in the documents.

II. Purchase / Discount of export documents drawn under confirmed orders/ export contracts etc.

Purchase or discount facilities in respect of export bills drawn under confirmed export contracts are generally granted to customers who enjoy Bill Purchase / Discounting limits sanctioned by the bank. As in case of purchase or discounting of export documents drawn under export order, the security as offered under L/C by the issuing bank is not available, the financing bank have to depend upon the credit worthiness of the buyer as well as exporter. If the term of payment under the bill is D.P. basis, the documents are released by the foreign correspondent only on receipt of payment under bill, while in case of D.A. bills, documents are delivered to the overseas importer against acceptance of bills exchange to make the payment on maturity. D.A. term bills are therefore more unsecured than D.P. bills. Since the financing banks are open to the risk of non-payment, banks in order to enhance security generally opt for ECGC policies and guarantees which are issued in favour of exporters/ banks to protect their interest against non payment or delayed payment which is not on account of default, mistake or negligence of the exporter. At the time of purchasing the bill, the bank has to ascertain the drawee limit as fixed by ECGC for the overseas buyers and have to see that it does not exceed to get the full benefit under the policy issued by ECGC. Banks sometimes do obtain credit report on foreign buyers before they purchase the bills drawn on them.

III. <u>Advance against export bills sent on collection basis</u>

Sometimes, it may be possible that there is a short fall in the limit sanctioned by the bank for the purchase of bill from his exporter or documents recieved under the letter of credit are with descripancies. Under such circumstances, in order to accomodate the valued customer, bank may extend the finance against the bill on collection basis. The bank in this case finance against the heading as " Advance against Bills sent on collection basis ". This is an extension to the foreign bills purchase limit sanctioned to the exporter by the bank.

IV<u>Advance against exports on consignment basis</u>

The exporter has his own establishment abroad or appoints a reliable agent to hold the consignment stock on his behalf abroad, who sells the same as and when demand arises and repartriate the funds. As per R.B.I. circuler number DBOD.ECC. 13C (3) (29) M-76 dated 29 November 1976, in cases where exchange control specifically approves that the proceeds of consignment exports brought into India later than 180 days, the concessional rate of interest against such finance available upto due date /notional due date (dependinmg upon tenure of the bill) subject to a maximum of 180 days.

V <u>Advance against undrawn balance</u>

Reserve Bank of India vide its circular no. DBOD ECC BC 8/C 297 M-37 dated 13 Jan. 1977 directed banks for granting advances against undrawn balance on a selective basis upto 90 days at a concessional rate of interest 8.65 per cent per annum. In case of export of certain commodities, exporters are required to draw bill upto 95 to 98 per cent of FOB value, and here banks are financing against such undrawn balance upto 180 days from the date of shipment of goods.

VI Advance against Retention money relating to exports

In case of exports of capital goods and project exports, the overseas importer normally witholds a small part of cost of goods towards guarantee, performance etc. which are called as Retention money. R.B.I. vide circular no. DBOD.ECC.BC 8/C 297 (M1-7) dated 13 Jan. 1977 empowered bank for granting of advance against such retention money as a measure of export promotion, upto a maximum period of 90 days at a concessional rate of interest which is 8.65 per cent per annum at present.

VII Advance against Deemed exports

With effect from 1 October 1985, Banks are permitted by R.B.I. to extend post supply credit to eligible persons in respect of supplies made to IBRD/IDA/UNICEF aided projects/ Programmes in India and other categories of deemed exports at a concessional rate of interest (8.65 per cent) for a maximum period of 30 days.

VIII. Advances against cash incentives

The scheme of Cash Compensatory Support or cash incentives was introduced in the year January 1966 by the Government of India with a view to providing support to export of specific non-traditional products to make these goods competitive in an international market. R.B.I. vide circular no. DBOD EM BC 90/C/ 297 (M-71) dated 30 July 1971 permitted banks to finance against incentive receivables. This finance is extended for 90 days at the concessional rate of interest (at present 8.65 per cent).

IX Advance against Duty Drawback entitlements

Since 15 October 1971, Government of India, Ministry of Finance (Department of Revenue, Directorate of Draw Back) is operating "Duty Draw Back" scheme by virtue of the "Customs and Central Excise Duties Draw Back Rules 1971". The basic objective of this scheme is to allow refund to excise and custom duties paid on indegenous/imported raw material, components etc. used in export products. R.B.I. vide circular no. EC.BC 2/C 297 L(16)-76 dated 7 January 1976, banks are permitted to finance against duty draw back entitlements to the exporters with effect from 1 February 1976. The said finance is extended by banks for a maximum period of 90 days free from interest. Bank lending under this scheme is fully refinance by R.B.I..

POST SHIPMENT FINANCE TO EXPORTERS UNDER DEFERRED PAYMENT ARRANGEMENTS AND TURNKEY CONTRACTS

During the year 1962-63, our country realised that it was in a position to export engineering and capital goods. But such exports require finance on a medium term and long term basis. Accordingly, with the establishment of Industrial Development Bank of India (IDBI) in the year 1964, the scheme was introduced for refinancing export bills with a maturity over 180 days, maximum upto the period of five years. In August 1967, this period was extended to seven years and then to further upto ten years by I.D.B.I. Thereafter number of amendments were effected in the scheme and with the establishment of Export Import Bank of

India from 1 January 1982, more stress was given to the exports of capital goods project exports and consultancy services on a medium and long term basis. The more details regarding this finance have been covered in a separate chapter on Export Import Bank of India.

Export Refinance

Reserve Bank of India under section 17-3 (A) of R.B.I. Act providing refinance to the bank against the finance given by them to the exporters. This refinance given to the bank, with effect from 1 August 1986 reduced from 10 per cent to 9 per cent. The refinance is given against bank's outstanding export credit both at preshipment and post shipment stages. At present banks are entitled to refinance to the extent of 100 per cent of the incremental outstanding export credit over average monthly outstanding on account of export advance of the base year 1989. Generally, the base year is advanced every year by one year.

Export Guarantee

Export Credit Guarantee of India (ECGC) Ltd., has designed various guarantees to protect banks from losses on account of their lending to exporters, which in turn will encourage banks to give adequate credit and other facilities for exports both at pre shipment and post shipment stages. ECGC has following financial gurantees:

(1) Packing Credit Guarantee.

(2) Export Production Finance Guarantee.

(3) Post Shipment Export Credit Guarantee.

(4) Export Finance Guarantee.

(5) Export Performance Guarantee.

(6) Export Finance (Overseas Lending) Guarantee.

The above guarantees give protection to the banks against losses due to non-payment by exporters on account of their insolvancy or default. ECGC pays three-fourths of the loss in case of post shipment export credit guarantee, export finance guarantee, export performance guarantee and export finance (Overseas lending) Guarantee. Whereas, in other guarantees ECGC pays two-third of losses.

Packing Credit guarantee gives protection to the banks against their lending on pre-shipment stage. However, at preshipment stage sometimes finance provided by bank exceeds the FOB value of contract/order, then such finance is adjusted against the incentive receivables. The cover against such finance is provided to the bank through Export production Guarantee of ECGC. For finance given by the banks to the exporters through purchase, negotiation or discounting of export bills, the cover is available through post shipment export credit guarantee. The finance against export incentive receivables in the form of cash assistance, duty drawback etc. to the exporters will be covered by Export Finance Guarantee. ECGC's Export performance guarantee protects banks against guarantees issued on behalf of exporters in favour of local and/or overseas authorities connected with export transactions. Finally, Export finance (Overseas lending) guarantee protect banks against foreign currency loans provided to the exporters executing overseas projects under the project exports.

(b) EXPORT FINANCING POLICY IN FOUR DEVELOPED COUNTRIES AND ITS COMPARATIVE STUDY WITH INDIAN POLICY

A comparative analysis of the latest export finanacing policy of India is undertaken with contemporary policies of the top four countries in the world trade, with a view to identifying the strengths and weakness of the Indian policy and suggesting measures for future improvisation.

The world exports went up from U.S.dollars 1892.1 billion to U.S.dollars 2358.2 billion between 1980 and 1989, representing a growth of 24.63 per cent.

The following table presents the share of top four countries, West Germany, U.S.A, Japan and U.K., in the world exports between 1980 and 1987.

Table 2.1

Share of Top Four Countries in the World Exports (percent)

No.	Countries	1980	1981	1982	1983	1984	1985	1986	1987
1	W.Germony	10.10	9.48	10.20	10.10	9.66	10.22	12.21	12.47
2	U.S.A.	11.69	12.58	12.28	11.95	12.20	11.84	10.91	10.62
3	Japan	6.89	8.15	8.00	8.76	9.55	9.84	10.58	9.80
4	U.K.	5.82	5.50	5.51	5.46	5.28	5.63	5.38	5.59

The above table reveals high degree of stability in the rank structure. Between 1980 to 1985, U.S.A. continuously occupied top position. Only in the last two years, West Germany occupied the first position. These top four countries are selected for comparative analysis of export financing policy with the Indian policy.

The comparison of export financing policies of the five sample countries is given below in the form of similarities and differences. The detail write ups of the export finance policy of

West Germany, U.S.A., Japan and U.K. are given in Appendix-II. The various sources of export financing policies of the four foriegn sample countries are cited in references number 2 to 18.

<u>Similarities</u>

1. Governments of all the countries are directly involved in export finance policy and they continuously monitor and amend the policy prescriptions through a specialised controlling institution.
2. In all the five countries, commercial banks undertake disbursement of short term export credit among exporters.
3. Export Insurance and Guarantee facilities are provided in all the sample countries by the specialised institutions owned by the State, except in U.S.A. and West Germany, where they are privately owned but appointed by the government. In U.S.A. the claim for losses is to be settled within five business days from the date of receiving it.
4. In all the countries, short, medium and long term credit is provided for export financing. The terms of each type of credit is also the same. The short term credit is given for maximum period of 180 days, medium term for 181 days to five years, and long term for more than five years.
5. Post shipment credit is provided in all the sample countries, whereas, Pre shipment credit which is an export incentive is not provided at all in U.K..
6. The facilities for covering the usual commercial and political risks in exports are provided in all the five countries. In addition to these usual risks, in West Germany

production risk and in India and U.K., exchange rate fluctuation risk is also covered.

Differences

1. The export finance is sanctioned in West Germany and U.K. by specialised institutions established for export financing, whereas, delivery is by banks. In the other three countries including India, the commercial banks are involved both in sanctioning and delivery of export credit.
2. In U.S.A., besides banks, fifteen state governments are authorised to operate export finance. Further, many private export trading and management companies also provide export finance.
3. The national level institutions controlling export credit are created in West Germany and U.K., whereas in other countries (including India), the central bank discharges this function.
4. In U.K. there is a very high degree of structural concentration, compared to other countries. In U.K. only one specialised institutions (Export Credit Guarantee Department), handles, controlling, monitoring, sanctioning and providing insurance and guarantees for export credit.
5. The medium and long term export credit is disbursed by specialised institutions in West Germany and U.K., whereas in other countries including India, it is done by commercial banks.
6. Pre shipment credit is provided to the exporters only in India, Japan, and U.S.A.. In West Germany it is provided by AKA only on the condition that the foreign buyer agreed to

bear burden of the interest on pre shipment credit. Whereas in U.K., there is no system of pre shipment finance provided to exporters.

7. In case of margin requirements on export credit, in India and Japan, it is left to the discretion of the lending bank, but in West Germany, U.K. and U.S.A., there are stipulations for the margin ranging form 10 to 30 per cent in West Germany and 10 to 15 per cent in other two countries.
8. Regarding rates of interest, in all the countries, concessional rates are there except in U.S.A..
9. The most important difference between the export financing policies in India and the other four countries is that, there is no facility for Interest subsidy provided to banks by the State in these countries as available in India. Hence, the full burden of concessional export finance is covered by the element of interest cross- subsidisation in banks. Further, the varrious cash incentives provided to the exporters in India (under Cash Compensatory Support and the Duty Draw Back Scheme) is not available in any of the other four sample countries.

Conclusion

In sum, export finance has been gradually chiselled in to a fine tool of export promrotion by the several changes made from time to time in the policy of export financing by banks, prescribed by the Reserve Bank of India (on behalf of the Government of India). The major policy planks of states export finance policy are, firstly, a concessional rate of interest is provided on bank advances to exporters and the bank is compensated by way of interest subsidy by the R.B.I.. Secondly, refinance is provided to the banks covering 100 per cent of export finance at a concessional rate of interest. Lastly, E.C.G.C. provided credit guarantee to the bank for export finance provided by it. Further, the banks are encouraged to provide finance to the exporters for funding each and every activity involved in an export transaction. Pre shipment credit covers funding from manufacturing to loading the goods on ship. Post shipment credit enables immediate payment to exporters for goods on delivery to the shipping company. Lastly, even against exporter's claims under Cash Compensatory support and Duty Draw Back Schemes of the government, banks provide short term accomodation to exporters.

Hence, the export finance policy provides several incentives to banks for increasing the flow of export finance in the country.

The exporters in turn gets following benefits under this policy. Firstly, finance is provided at a concessional rate for financing an export transaction from beginning to end. Secondly, Cash Compensatory Support scheme (CCS) is provided by government through banks. Thirdly, exporters are given refund of excise and custom duties paid by them under the Duty Draw Back Scheme. The risks in exports are fully covered by commercial insurance companies and ECGC packages.

The above analysis of export finance policy leads us to hypothesise that the conducive policy accompanied by the growth of gross national product should lead to increasing flow of export finance and export trade.

The comparative analysis of export financing policy of India and four developed countries revealed certain similarities and differences. All the five countries had continuous monitoring and updating export finance policy by State and export insurance and guarantee facilities provided by State owned institutions. There was a marked uniformity in the tenures of short, medium and long term export credit. A fairly comprehensive coverage of commercial and political risks in export business is available through normal insurance channels in all the countries. Further, in all the sample countries, commercial banks were engaged in sanctioning and delivery of all types of export credit to exporters in the form of post shipment credit and pre shipment credit (except in U.K.). Whereas, in case of West Germany and U.K. export loans are sanctioned by specialised institutions and delievred through banks.

The function of monitoring and controlling of export finance in the country is discharged by the control banks in all the sample countries except West Germany and U.K. where there are specialised institutions for this purpose.

In all the countries except U.S.A. concessional rates of interest are charged on export finance. There are statutory stipulations governing margin requirements in all the countries except India and Japan where it is left to the discretion of the lending banks.

The most important result of analysis is highlighting of the fact that there is no provision for interest subsidy or cash incentive schemes in the four developed countries as it exists in

India. It may be pointed out that these are features common to the export finance policies of underdeveloped countries where banks have very limited scope for cross subsidise of Interest.

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