

**Report of the
Working Group
to Review
Export Credit**

**Department of Banking Operations and
Development
Reserve Bank of India**

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Report of the Working Group to review export credit

Introduction

Exports play an important role in accelerating the economic growth of developing countries like India. In view of the important role played by exporters, several initiatives have been taken by Reserve Bank of India and Government of India. These initiatives have contributed to the impressive increase in our exports. Of the several factors influencing export growth, credit is a very important factor which enables exporters in efficiently executing their export orders. The commercial banks provide short term export finance mainly by way of pre and post-shipment credit. Export finance is granted in Rupees as well as in foreign currency.

In view of the importance of export credit in maintaining the pace of export growth, RBI has initiated several measures in the recent years to ensure timely and hassle free flow of credit to the export sector. These measures, inter alia, include rationalization and liberalization of export credit interest rates, flexibility in repayment/prepayment of pre-shipment credit, special financial package for large value exporters, export finance for agricultural exports, Gold Card Scheme for exporters etc. Further, banks have been granted freedom by RBI to source funds from abroad without any limit for exclusively for the purpose of granting export credit in foreign currency, which has enabled banks to increase their lendings under export credit in foreign currency substantially during the last three years.

RBI introduced the Export Financing scheme in 1968. The policy behind the scheme was to make short-term export finance available to exporters at internationally competitive interest rates while at the same time ensuring that the rates are well above the financing banks' cost of finance for short-term loans of the same duration in the relevant currency. Under the scheme, banks extend working capital loans to exporters at pre and post shipment stages. The credit limits sanctioned to exporters is based upon the financing banks' perception of the exporter's creditworthiness and past performance.

Export Financing may be denominated either in Indian Rupees or in foreign currency. For both types of pre-shipment financing, RBI sets a ceiling on the interest rate that banks may charge to borrowers under the scheme. Since RBI fixes only the ceiling rate of interest for export credit banks are free to fix lower rates of interest for exporters on the basis of their actual cost of funds, operating expenses and taking into account the track record and the risk perception of the borrower/ exporter.

The mid-term Review the Monetary and Credit Policy for the year 2002-03 had proposed deregulation of interest rate on rupee export credit in phases. Accordingly, while the interest rates for the second slab of export credit were deregulated with effect from 1 May, 2003 it was indicated that, with effect from a date to be announced later it would be considered whether the ceiling rates for the first slab should also be discontinued to encourage greater competition in the interest of exports.

Shri Y. V. Reddy, Governor, RBI desired that a Working Group consisting of Department of Banking Operations and Development (DBOD) and Monetary Policy Department (MPD) of RBI, banks and export organizations may be set up to quickly review the scheme of export credit and that the report of the Group should be placed in public domain for feedback.

The terms of reference of the Working Group were:

- (i) Review of existing procedures for export credit
- (ii) Review of action taken on exporters' satisfaction survey
- (iii) Review of Gold Card Scheme
- (iv) Review of export credit for non-star exporters; and
- (v) Review of the current interest rate regulations in export credit

Accordingly, a Working Group was constituted under the Chairmanship of Shri Anand Sinha, Chief General Manager, in charge of Department of Banking Operations & Development, (DBOD) Central Office, Reserve Bank of India. The other Members of the Group consisted of Senior Officials from Monetary Policy Department of Reserve Bank of India (RBI), State Bank Of India, Canara Bank, Federal Bank Ltd., Federation of Indian Exporters' Organizations (FIEO), Engineering Export Promotion Council (EEPC) and All India Association of Industries (AIAI). The names of the Senior Officials who were nominated from the above Organizations/ Institutions are furnished in the **Annex I** to the Report

Meetings of the Working Group

Three Meetings of the Group were held. The first meeting of the Working Group was held on April 19, 2005. The second meeting of the Working Group was held on April 25, 2005. The Group, based on the presentations made by the Representatives of the Export Promotion Organizations, discussions and study of the statistics and other relevant information made available during the course of the discussions, made the following observations and recommendations in respect of each of the terms of references.

1 Review of the existing procedure for export credit

The Group reviewed the existing procedures for export credit. After reviewing the procedures, members were of the opinion that existing procedures in place were adequate to take care of the interest of the exporters. The Export Promotion Organizations represented that they have been receiving complaints that the time frame prescribed by RBI for disposal of the applications for export credit is not complied with by many banks, especially in the case of small and medium exporters and exporters in smaller centers. Piecemeal queries were raised which resulted in delays in sanctioning / rejecting the loan applications from exporters. Non adherence to the set procedures and systems was more pronounced in the case of small and medium exporters who are expected to play a bigger role in the promotion of exports in the coming years.

The representatives of banks apprised that there has been improvement in the customer service to exporters specially the small and medium exporters. The incidence of delays in sanctioning the credit limits have been reduced. The Group was of the opinion that the procedures laid down were not adhered to by branch officials in disposing of the applications for credit limits in several cases. The Group felt that there should be attitudinal changes among the officials of the banks in dealing with small and medium exporters by strictly adhering to the procedures so as to ensure smooth flow of export credit to small and medium exporters.. While interaction between banks and exporters by way of seminars/meetings / workshops occur in major centers, it is not so in smaller centers. There was a suggestion by the export promotion organizations to arrange for such meetings with banks and small and medium exporters to sort out the differences and also educate the exporters about various formalities of banks. It was pointed out by RBI that the task of coordination for export promotion was given to SLBC which constituted sub-committees with a view to bringing in better coordination among banks and exporters. It was suggested that the export promotion organizations may interact at state level with the sub-committees and arrange for meetings/seminars etc to suitably educate and provide adequate and appropriate guidance to small and medium exporters to obviate the difficulties faced by them.

Recommendations

- (i) There is a need for attitudinal change in the approach of banks' officials. While posting officials, banks may keep in view the attitude of officials to exporters' credit requirements, especially the small and medium exporters.
- (ii) The banks should put in place a control and reporting mechanism to ensure that the applications for export credit especially from Small and Medium Exporters are disposed of within the prescribed time frame. The banks should ensure that this recommendation is implemented in letter and spirit. The Internal / Concurrent audit in

banks should comment on whether or not the prescribed time frame for disposal of export credit applications are being adhered to by the banks. The Regional Managers of banks during branch visits , should also look into this aspect.

- (iii) Banks should raise all queries in one shot and should avoid piece-meal queries in order to avoid delays in sanctioning credit.
- (iv) SMEs especially in the upcountry centers should be properly trained by SSI / export organizations with technical assistance from banks regarding correct filling up of forms and furnishing all required information to banks to avoid delay.
- (v) IBA may take initiative to devise a simplified loan application form in consultation with FIEO and other Export Promotion which should serve a model for all banks.
- (vi) Alternatives to collateral security should be found and fully made use of.
- (vii) State Level Export Promotion Committees which have been reconstituted as sub-committees of the SLBCs should play a greater role in promoting coordination between banks and exporters in the respective states and Export Promotion Organizations should take initiative in coordinating the meetings.

2 Review of action taken on exporters satisfaction survey conducted by the National Council of Applied Economic Research (NCAER)

After the NCAER Survey Report was submitted in April 2002, a small Committee consisting of officers from RBI, banks and ECGC was constituted to impress upon the commercial banks about the need to bring about improvements in the credit delivery system on the lines suggested by NCAER. The Committee visited 13 centers viz. Mumbai, Bangalore, Kolkata, New Delhi, Jaipur, Cochin, Chennai, Agra, Ahmedabad, Hyderabad, Guwahati, Tirupur and Mysore, accounting for major exports. Visits to these centers and discussions with bankers and exporters and Reports received from banks revealed that the suggestions made by NCAER have been by and large implemented by the banks. The representatives of FIEO and other export promotion organizations represented that the small and medium exporters continue to face certain irritants such as delay in sanctioning of credit, non-availability of PCFC , levying of service charges for PCFC, insistence on collateral security in all cases etc. and as such it cannot be said that the exporters are generally satisfied with the services offered by the banks under the various parameters chosen for conducting the satisfaction survey. Therefore, the representatives of export organizations.

desired to have another survey conducted by eliciting the views of exporters in confidence.

After reviewing the experience of the committee after its visit to the various centers mentioned above and also the presentations made by the Export Promotion Organizations, the general consensus of the members of the Group was that since the last survey, there has been considerable improvement in the delivery of export credit and the services rendered by the banks. The Group was also of the opinion that there is need to look into the grievances of the Small and Medium Exporters and as such there is need to have a fresh “satisfaction Survey”.

Recommendation

RBI may consider getting a fresh survey conducted by an external agency regarding the satisfaction of the exporters with the services rendered by banks.

3 Review of the Gold Card Scheme

The Group reviewed the implementation of the Gold Card Scheme announced by RBI in May 2004. The position regarding issue of Gold Cards to eligible Exporters under the Scheme approved by RBI/Govt. of India by reporting banks as on 25 April 2005 was as under:

Name of bank	No.of Cards issued till 25 April 2005
State Bank of India	1004
Bank of India	667
Punjab National Bank	396
Canara Bank	390
Bank of Baroda	187
Indian Overseas Bank	112
Central Bank of India	79
Syndicate Bank	65
Vijaya Bank	25
ICICI Bank	19

The Group observed that while some banks like State Bank of India , Canara Bank, Bank of India, Punjab National Bank etc. had made progress in issuing Gold Cards to eligible exporters, some banks could not show much progress. While large corporate exporters have been getting the benefits spelt out in the

Gold Card Scheme in normal course, the Gold Card Scheme would immensely benefit the small and medium exporters.

The reasons for tardy progress in implementation of the scheme were attributable to –

- i) Some banks were of the view that there may be pressure on the banks to extend the benefits to large number of borrowers whose credit risk could not be assessed properly.
- ii) The procedure laid down by some banks by calling for information in lengthy forms was found cumbersome by exporters in giving the information.
- iii) Some banks have prescribed lengthy forms, running into pages. It was highlighted that the procedure adopted by some banks viz. SBI and Canara Bank with regard to issue of gold cards was exemplary. They have devised simple application forms. Further, even without the individual exporters having to apply for the card, these banks assess the performance and track record of the exporters and issue gold cards to eligible exporters suo moto and the progress in issue of cards is monitored at Board level.
- iv) As per para 3.4.3 of the Gold card scheme, banks were advised to consider exempting Gold Card holders from the Packing Credit Guarantee Sectoral Scheme of ECGC, in view of their credit worthiness. It was represented by FIEO that many banks had not implemented the same causing additional burden to Small and Medium borrowers and also others.
- v) The representatives of banks stated that banks in general were of the opinion that this was only an advice and not mandatory and should be left to banks themselves to decide the issue. As this facility is given to Gold Card holders, it was also felt that the issue of Gold Cards was not speeded up since the holders would have to be exempted from covering under the ECGC scheme. There was a suggestion from the representatives of FIEO and other Export promotion organizations that the insurance fee should be borne by the banks themselves and should not be charged.

After detailed discussions and considering the various representations the following recommendations were made;

Recommendations

- i) Since the number of Gold cards issued by banks is low, banks may be advised to speed up the process of issue of the Cards to all the eligible exporters especially the SME exporters and ensure that the process is completed within a period of three months .
- ii) Simplified procedure for issue of Gold Cards as envisaged under the scheme should be implemented by all banks. IBA should look into the matter and devise a simplified format in consultation with banks. Information/ particulars already available with the banks may not be called for from the exporters.
- iii)** Banks may consider implementing the instructions at para 3.4.3 of the Gold Card scheme regarding exempting all deserving Gold Card holder exporters from the Packing Credit Guarantee—Sectoral schemes of ECGC , on the basis of their track record.

4 Review of export credit for non-star exporters

The Group noted that while reportedly the large corporate exporters receive very good treatment in terms of service and interest rates, the small and medium exporters do not get the same treatment . Small and Medium Exporters find it difficult to sort out their problems.

Recommendations

- Banks should post nodal officers at Regional/Zonal Offices and major branches having substantial export credit for attending to the credit related problems of SME exporters

5 Review of current interest rate regulation in export credit

A. Export credit in Rupees

Exporters' organizations held the view that wherever interest rates have been freed, the small exporters have been at disadvantage while large corporate exporters get the benefit. It is practically very difficult for exporters to shift from one bank to another bank which charges lower rates of interest. As a result they are unable to take advantage of the competition among banks in lowering the

interest rates. Therefore, the present interest rate prescription by RBI for the first slabs of the Rupee export credit (both pre and post shipment) should continue.

Recommendations.

- i) The working group recommends that the present interest rate prescription by RBI may continue for the time being in the interest of the small and medium exporters.
- ii) The interest rates prescribed by RBI are ceiling rates. Since the banks are at liberty to charge lesser rates of interest, taking into account the cost of funds, margin requirements, risk perception etc, banks should try to extend export credit at rates lesser than the ceiling rates prescribed by RBI.

B. Export credit in foreign currency

The Working Group reviewed the position of export credit in foreign currency, in view of the comments of exporters that banks were not sufficiently meeting the their demand for export credit in foreign currency

Analysis of the export credit statistics revealed that there has been substantial increase in the export credit in foreign currency during the last three years. Since June 2002 while the quarterly disbursement of export credit in Rupees has declined , the disbursement of export credit in foreign currencies has registered sharp increase by more than ten times as shown below:

I. Export Credit Disbursals in Foreign Currency and Rupees during the Quarters

Disbursal during Quarter ended	Export Credit in Foreign Currency Pre & Post (Rs. crore)			Export Credit in Rupees (Rs Crore)		
	Pre-shipment (PCFC)	Post-shipment (EBR)	Total	Pre-shipment	Post-shipment	Total
June '02	1478	1375	2853	25122	26592	51714
Sept '02	3117	2891	6008	28476	30581	59057
Dec '02	6107	3971	10078	28276	29904	58180
March '03	10095	6886	16981	27554	27873	55427

June '03	10412	7070	17482	23652	24641	48293
Sept '03	13603	10025	23628	23942	26035	49977
Dec '03	13947	10038	23985	25794	26620	52414
March '04	19214	12800	32014	25409	28745	54154
June '04	18418	12235	30653	21390	24061	45451
Sept '04*	18426	12851	31277	22142	26249	48391

* provisional figures

Similar is the case with outstanding in export credit also as shown below.

II Export Credit Outstanding in Rupee and Foreign Currency as at the end of the Quarters

(Rs Crore)

Outstanding as at the Quarter ended	Rupee Credit	Foreign Currency Credit (in Rupees)	Total
June 2002	40882	2152	43034
Sept 2002	42273	3929	46202
Dec2002	40473	6910	47383
March 2003	37144	12512	49656
June 2003	38126	14202	52328
Sept 2003	36373	16344	52717
Dec2003	38470	18865	57335
March 2004	38893	25244	64137
June 2004	45451	30653	76104
Sept 2004*	31348	28388	59736

* provisional figures

PCFC outstanding, which was just 5% of the rupee export packing credit outstanding as at the end of June 2002 had grown to about 50% by September 2003. As at the end of September 2004, the PCFC outstanding has exceeded the Rupee packing credit outstanding.

III Export packing credit in Rupee and in foreign currency outstanding as at the end of the quarter

(Rs. Crore)

Quarter ended	Rupee credit	Foreign currency	Total
June 2002	21579	968	22547
Sept 2002	22070	1950	24020
Dec 2002	21313	4422	25735
March2003	19531	7976	27507
June 2003	20765	8643	29408
Sept 2003	19615	10065	29680

Dec 2003	20933	11958	32891
March2004	20355	16103	36458
June2004	17995	17950	35945
Sept2004	16882	17308	34190

However, while demand for export credit in Rupees is low, there is persistent demand for more export credit in foreign currency in view of the cost advantage over the export credit in Rupees and arbitrage opportunity.

The Group observed that eventhough there has been substantial increase in the volume of export credit in foreign currency during the last three years, there still was unsatisfied demand.

In view of the limited foreign exchange resources of banks (FCRN-B, EEFC, RFC etc) RBI has permitted banks to avail of lines of credit from abroad without any limit exclusively for the purpose of extending export credit in foreign currency. Most of the banks have availed of this facility. It was observed that while few banks were extending export credit in foreign currency entirely out of their deposit funds, some banks were meeting the same fully out of overseas borrowings. Many banks had a mix of the different sources of funds viz. deposit funds, borrowings from abroad and swap funds. Substantial portion of the export credit in foreign currency was met by borrowings from abroad. From a prudential point of view it was felt that there was a need to have a regulatory limit up to which banks may be allowed to borrow from abroad for this purpose.

It was brought to the notice of the Group that some banks are stated to be levying service charges upto 2% of the amount of export credit in foreign currency lent in addition to the interest rate ceiling prescribed by RBI.

In respect of Gold Card holders, banks are levying service charge at a flat rate of 0.1% on CIF value instead of the funds lent as provided at para 3.4.2 of the Gold Card Scheme. However since this service charge is levied by banks per transaction, the annualised service charge levied works out to much higher than the prescribed rate of 0.1%. It is proposed at item (ii) of the recommendations below that banks will not charge this service charge in view of the proposed increase in the interest rate ceiling on foreign currency lending for export credit out of inter-bank foreign currency borrowings /funds borrowed from abroad . This will tantamount to modification of para 3.4.2 of the Gold Card Scheme, for which concurrence of the Ministry of Commerce, GOI may be obtained since the clause was included in the scheme as desired by the Ministry of Commerce.

With regard to export credit in foreign currency, it was agreed by FIEO that the interest rate ceiling on PCFC/EBR could be raised to LIBOR plus 100 basis points subject to the condition that banks will not levy any other

service charge and only out of pocket expenses incurred by banks will be recovered.

Recommendations

- i) In respect of export credit in foreign currency, the interest rates may be raised by 25 basis points,(i.e. LIBOR + 1.00% for the first slab and additional 2% for the second slab) , subject to the express condition that the banks will not levy any other charges in any manner under any name viz. service charge , management charge etc except for recovery towards out of pocket expenses incurred.
- ii) Since implementation of the above recommendation will tantamount to modification of para 3.4.2 of the Gold Card Scheme, concurrence of the Ministry of Commerce, GOI may be obtained.
- iii) Levying of other service charge linked to the amount lent is not in order and should not be done by banks.
- iv) Banks should give priority for the foreign currency export credit requirements of exporters over foreign currency loans to non-exporter borrowers.
- v) In view of the substantial increase in export credit in foreign currency met out of borrowings from abroad, there is a need to look into whether a prudential limit could be prescribed, up to which banks may be allowed to borrow from abroad for the purpose.

(Anand Sinha)

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Dated May 9, 2005.

Constitution of the Working Group :

Chairman:

Shri Anand Sinha, Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India

Members :

1. Dr. Himanshu Joshi, Director, Monetary Policy Department, Reserve Bank of India
2. Shri G.K.Gupta, Vice President, Federation of Indian Exporters' Organisations
3. Shri P.R.Venkatachalam, Deputy Chairman, Engineering Export Promotion Council
4. Shri Bose K. Nair, Deputy Director, World Trade Centre (representing AIAI)
5. Shri A.P.Verma, General Manager, International Banking – Domestic, State Bank of India
6. Shri M.S.Nayak, General Manager, Canara Bank
7. Shri C. Sreekumar, Deputy General Manager, The Federal Bank Ltd.