RESERVE BANK OF INDIA

REPORT OF THE COMMITTEE ON STRUCTURE OF EXPORT CREDIT

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RESERVE BANK OF INDIA
BOMBAY

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Committee to look into the
Structure of Export Credit

New Delhi

January 25, 1993.

Dr. C. Rangarajan,
Governor,
Reserve Bank of India,
Bombay.

Dear Sir,

We are pleased to present our Report on the Structure of Export Credit.

Yours faithfully,

Sd/-
(Dr. G. Sundaram)
Chairman.

Sd/- Jagdish Capoor (Member)	Sd/- K.N. Bhargava (Member)
Sd/- M.V. Raghavachari* (Member)	Sd/- N.M. Chordia (Member)
Narayan Valluri (Absent) (Member)	Sd/- Dr. (Smt.) V.S. Bharucha (Member)

* Subject to note of dissent.

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(Member-Secretary)

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PREFACE

In spite of the various reforms including partial convertibility of the Rupee, anxiety still persists about the performance of exports. April-November, 1992-93 figures indicate a growth rate of 5.88% in US Dollar terms which is slightly less than the 6.05% achieved during April-October, 1992-93. The target is actually 12.8% of export growth in $ terms for the year. Apart from export growth rate, the balance of payments position is important because whenever the foreign exchange reserves deteriorate, rightly or wrongly imports are cut as happened last year which in turn affect export production because import content of export production is of the order of 30%.

Consequently, various policy prescriptions are being considered for achieving the target. One of the important constraints in achieving the desired growth rate which the exporters point out is in regard to the availability of export credit and the rate at which it is available. The Governor of the Reserve Bank of Indiia at the request of the Federation of Indian Export Organisations appointed a Committee under my chairmanship in September, 1992 to examine the complaints regarding the interest rate structure of export finance, the period of credit and the various allied questions including important individual complaints. Accordingly, the Committee studied the various aspects of these issues and submitted an interim report on the first two terms of reference viz., complaints regarding the interest rate structure and the period of credit in October, 1992 before the announcement of the Busy Season Credit Policy. The Governor took into consideration the views in the interim report of the Committee and announced a reduction of 1% in export credit interest rate.

The Committee since examined further all the aspects relating to the cost of credit to the exporters, the relative competitiveness of the exports on account of the interest cost, the competitive interest rate structure in the neighbouring countries and the ways and means to ensure free flow of credit to the export sector in the context of the immediate need to promote exports not only to achieve the target of Rs. 58,000 crores fixed for the current year but also to overcome the balance of payments position.

The exporters were generally of the view that the doubling of the interest rates in 1991 alongwith the withdrawal of export incentives such as CCS, etc., had affected their international competitiveness adversely.

They also felt that the other supportive measures such as LERMS, advance licences and exemption of tax on export profit etc., as incentives were not adequate. As the exports are also not doing well at present, Commerce Ministry at the highest level is of the strong view that export finance interest rate should be brought down immediately to a single digit figure. The outer limit, in the present circumstances, could at the most be 10%.

On the other hand, the Committee also took into consideration the constraints on the banks in lowering the interest rate taking into account the cost of funds to them, and the limitation of the Reserve Bank of India to extend refinance facility beyond a certain level. Needless to add the revival of compensation to the banks by way of interest subsidy may not be relevant in the present policy of doing away with all subsidies.

The Commerce Ministry feel that the exporters deserve all sympathetic consideration and reduction in interest rates on export finance would be an important component in their export efforts (apart from full convertibility of the Rupee which is, of course, beyond the purview of this Committee).

It is also pleaded that if there is going to be a policy decision to lower the minimum lending rate for commercial loans, there should be more than a corresponding reduction of export credit interest rate. Needless to add that the yield to the banks may have to be maintained at current levels by lowering the rate of interest on the refinance.

The Government of India is also urged to withdraw the tax on interest for export credit.

At the time of the interim report it was felt by me that perhaps a compromise could be worked out at least during the interim period by reducing the interest on export credit to 13% (inclusive of tax) from 15% and with the abolition of the tax on interest for export credit, it could be brought down to 12.5%. With the inflation having come down since the time of the interim report, it should be possible for the Reserve Bank of India to consider further reduction in the interest rate almost fulfilling the wishes of the exporters without corresponding loss to the banks. Once again, the Ministry of Finance should consider removal of the tax on interest for export credit.

Another aspect which was discussed by the Committee was the flow of credit. Although the data on the flow of credit on the disbursment

basis was not available at that time, it was felt by the exporters that there was a short-fall in the flow of credit. The Reserve Bank of India have taken steps since not only to collect the data in this regard but have also issued strict directions to the commercial banks to reach by June, 1993 a minimum level of export credit equivalent to 10% of each bank's net bank credit. The Reserve Bank of India have to be commended for having taken some of these steps based on the discussions of the Committee without waiting for the final report. It is hoped that the Reserve Bank of India would be able to enforce these directions eventually on the commercial banks. Although this 10% stipulation gives the character of priority sector to exports, it is our desire that the export sector should be declared as priority sector in order to give it it's due importance.

A suggestion has also been made that an incentive be provided to the banks to ensure flow of export credit by exempting their earnings on export finance from income-tax as is being done now for export profits.

We should also note that both pre-shipment credit and post-shipment credit at reasonable rates are available in foreign currencies.

It should also be noted that the small scale sector accounts for 40% of our exports and they are the ones who mainly face difficulties on account of non-availability of credit, high interest rate and cumbersome procedures and accessibility to commercial banks. This reminds me of the All India Rural Credit Survey of the Reserve Bank of India in 1955 which gave a graphic account about the inadequacy and difficulties in obtaining rural credit and the sway of the village money lender. Although the situation of a small exporter cannot exactly be comparable to this, he is also constrained, we have been told, to resort to other sources of finance at exorbitant rates because of the proclivity of the commercial banks to lend only to big exporters.

More than the policy, the procedures are very important at the grass-root level or across-the-counter. There have been innumerable complaints about the attitudes and procedures of the commercial banks and other lending agencies. It is difficult to be exhaustive in dealing with these complaints in a report of this kind although an effort has been made to answer many of them in a separate chapter.

In the absence of an exporter culture, I am again reminded of the fervent appeal of the All India Rural Credit Survey of the Reserve Bank

of India for rural credit in the early 50s immediately after the Independence in the following words: "In the conditions of this country, the problem of rural credit is in reality one of **rural-minded** credit, itself a part of rural-minded development. In the enlarged context, what is needed may be said to be no less than a revolution of psychology: one which amounts to the rural orientation of all the forces that count for the country's governance and in the ordering of its economy". You replace the world, '**rural**' by '**export**' and it becomes truly relevant in the present context of the imperative need to promote our exports.

Those who are hard pressed for time could read the summary of recommendations. The various arguments and counter-arguments between the exporters and the Reserve Bank of India and the commercial banks, on occasions very acrimonious, are dealt with in the report in detail which, I hope, will be edifying to those who have the time and patience to read and digest.

Last but not the least, I should thank the other members of the Committee particularly the exporters and the Federation of Indian Export Organisations and the officials of the Reserve Bank of India for their unstainted cooperation in making this report possible. In fact, they have taken more than keen interest in preparing the report. My thanks in particular are to Shri H. Natarajan, Member Secretary, for his tireless efforts in collecting the various data, information and drafting the report. In fact, it was my desire to make the report as simple and readable as the Rural Credit Survey of the Reserve Bank of India of 1955 mentioned above which was noted both for its language and content, so that expression and language would interest the ordinary reader and the content would enthuse the Reserve Bank of India and the Government of India for policy formulation for the benefit of this vital sector of exports.

We trust we have succeeded in this respect and the document would be useful before the forthcoming Budget.

Sd/-
26.01.1993
DR. G. SUNDARAM.

CHAPTER 1

Introduction

1.1. In the Open House Meeting organised by the FIEO at Madras on 10 September 1992, Governor, Reserve Bank of India, had announced the constitution of a Committee under the Chairmanship of Dr. G. Sundaram, Additional Secretary, Ministry of Commerce (MOC) to look into the structure of the export credit. The Committee would go into complaints relating to structure of export finance and would submit its recommendations in 3 weeks' time before the announcement of the busy season credit policy by Reserve Bank of India.

1.2. Terms of Reference of the Committee:

The terms of reference of the Committee were as under :

(i) To go into the complaints regarding the interest rate structure on export finance both at pre-shipment and post-shipment stages taking into account:

(a) the cost of funds to the banks and other lending institutions;

(b) the general lending rates for other commercial loans;

(c) the desirability and feasibility of refinance from RBI keeping in view the overall monetary implications;

(d) the incidence of cost of interest in the total cost of the exported commodity.

(ii) To study the maximum period upto which the pre-shipment and post-shipment credit should be made available.

(iii) Whether the application of various credit norms like MPBF, single borrower exposure, inventory norms, etc., should be made applicable for export credit or not.

(iv) To study the existing sanctioning procedure obtaining at the commercial banks for sanction of loans and to suggest ways to expedite the sanction.

(v) To consider the desirability of continuing Post-shipment Credit in Foreign Currency (PSCFC) in the existing form and also extension of the same to the other currencies.

(vi) To consider feasibility of rediscounting of export bills in the overseas market.

(vii) To consider any other issue having a bearing on the structure of export credit with a view to removing difficulties in the way of exports.

1.3. The Composition of the Committee

The composition of the Committee was as follows :

(1) Shri Jagdish Capoor, Chief Officer, Industrial and Export Credit Department, Reserve Bank of India, Bombay.

(2) Shri K.N. Bhargava, Additional Controller, Exchange Control Department, Reserve Bank of India, Bombay.

(3) Shri M.V. Raghavachari : Adviser-in-Charge, Credit Planning Cell, Reserve Bank of India, Bombay.

(4) Shri N. Valluri, Joint Secretary, Ministry of Finance, Department of Economic Affairs.

(5) Representative of Export Credit Guarantee Corporation : Shri N.M. Chordia, Executive Director.

(6) Representative of FIEO : Shri P.D. Patodia.

(7) Representative of FICCI : Shri J.M. Gandhi.

(8) Indian Banks Association : Shri A.K. Bakhshy.

(9) Foreign Exchange Dealers Association of India : Shri V. Ananthakrishnan, Chief Executive.

(10) Gem & Jewellery Export Promotion Council : Shri M.R. Bhansali, Chairman.

(11) Council for Leather Exports : Shri P.H. Mahtani, Chairman.

(12) Dr. (Mrs.) V.S. Bharucha, Additional Economic Adviser, Ministry of Commerce.

(13) Shri H Natarajan, Joint Chief Officer, Export Finance Division, IECD, RBI, Bombay - Member Secretary.

1.4. The Committee had six sittings, two at Bombay and four at New Delhi as detailed below :

Date of Meeting	Place of meeting
21.09.1992	New Delhi
26.09.1992	Bombay
29.09.1992	New Delhi
02.10.1992	Bombay
22.10.1992	New Delhi
18.01.1993	New Delhi

1.5. The first meeting was held on 21 September 1992 and after preliminary introduction of the constitution and objective of the Committee by the Chairman, the methodology for preparation of the Committee's report was finalised. It was decided that the Committee should concentrate on the first item of Terms of References namely the interest rate structure as the Committee's recommendation had to be submitted to the Governor before the credit policy announcement on 8 October 1992. Accordingly, it was decided that if necessary an interim report covering at least the first and second Terms of Reference would be submitted by 6 October 1992 to the Reserve Bank. It was decided that the subsequent meetings would be held for full days and also it would work on holidays, if necessary. For the purpose of discussion, FIEO and other export councils were requested to prepare comparative position of the cost impact on the respective industry as far as the export trade was concerned before and after recent liberalisation. The members expressed difficulty in preparing such a data within short period of time. It was suggested by the Committee that such a study could be prepared for future use. Similarly, it was indicated that RBI (IECD) would prepare a note on export credit covering all aspects and would circulate among the members. The note was circulated before the second

meeting. MOC circulated two papers, one on export credit and another containing a list of action points for promoting exports along with a note on Korean method of grant of export credit.

1.6 Accordingly, three more meetings were held as scheduled. Besides interest rate structure which was the subject of special focus, otherTerms of Reference were also discussed threadbare. The Chairman gave ample opportunity to all the members to express their views. There was broad agreement among the members of the Committee on all Terms of Reference except on Item No. (i) relating to interest rate structure on export finance. It was decided by the Committee that views of both the sides might be brought out in the report and placed before the Governor to enable him to take a policy decision before announcing the credit policy. The interim report was submitted to the Governor on 5 October 1992 before the announcement of the Busy Season Credit Policy and the Governor assured the Chairman that he had read report himself and the views expressed therein were taken into consideration in the announcement of export credit interest rate reduction, etc.

Summary of Recommendations of the Committee on Structure of Export Credit

1. Export Credit Interest Rate Structure

(a) The Committee examined all aspects relating to the cost of credit to the exporters, the relative competitiveness of the exports on account of interest cost, the competitive interest rate structure in the neighbouring countries and the means to ensure free flow of credit to the export sector. The exporters are generally of the view that the doubling of interest rates in August 1991 along with withdrawal of export incentives such as CCS, etc., had affected their international competitiveness adversely. They also felt that other supportive measures such as LERMS, advance licences and exemption of tax on export profit, etc., as incentives were not adequate. Commerce Ministry at the highest level is also of the strong view that export finance interest rate should be brought down immediately to a single digit figure, the outer level in the present circumstances could at the most be 10%. (Para 2.7).

(b) On the other hand, the other members of the Committee highlighted the constraints of the banks in lowering interest rates taking into account the higher cost of funds to them, the limitation of the RBI to extend refinance facilities for export credit beyond a certain level and also the lack of scope for the revival of compensation to banks by way of interest subsidy in the context of current policy of doing away with all subsidies. Their suggestion is that it would not be feasible to consider any reduction of interest rate for export finance which is already lower than the rate of interest on normal commercial credit. (Para 3.17).

(c) Taking into account the above diverse views and the need to promote exports, it is suggested that the Reserve Bank might consider reviewing the interest rates for export credit within their overall monetary and credit policy. It is also recommended that if there is going to be a policy decision to lower the minimum lending rate for commercial loan, it should be ensured that there is more than a corresponding

reduction of export credit interest rate keeping the yield to the banks at the existing level by lowering the interest rate on refinance. (Para 3.18).

[The interim report was submitted on 5 October 1992 to Governor, RBI, to enable the Reserve Bank to take into account the above views of the Committee before deciding the interest rate policy. In the credit policy announced on 8 October 1992, lending rate for loans of Rs. 2 lakhs and above was reduced by RBI with effect from 9.10.1992 from 19% (minimum) to 18% (minimum) and a reduction of 1% in the export credit interest rate structure was also made across-the-board. (Revised export credit interest structure given in the annexure). The refinance accelerator for rupee credit was lowered from 125% to 110% and in the case of PSCFC, it was reduced from 133 1/3% to 120%. Simultaneously, the lendable funds of banks were augmented by way of reduction in SLR in a phased manner and also by way of release of the impounded cash balance with the Reserve Bank under incremental Cash Reserve Ratio which would take care of all vital credit requirements including Export Sector].

(d) The tax on interest for export credit may be withdrawn which will give some relief to the exporters.

(Para 3.19)

(e) The earnings on export finance by banks may be exempted from income tax as is being done for export profits.

(Para 3.19)

2. Flow and Period of Export Credit

(a) Reserve Bank may consider directing the banks to earmark to the extent necessary the funds released by lowering of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements on the basis of the Narasimham Committee Report on "Financial System" specifically to export sector.

(Para 4.7)

(b) The adequacy of availability of export credit should be related to total exports of the country. The flow of credit to export sector may be discussed in AIEAC meetings as one of the regular items of agenda.

(Para 4.8)

(c) The existing period of credit, both at pre-shipment stage and post-shipment stage may be left undisturbed. It may be ensured that the period of pre-shipment credit should be related to actual period of cycle of production of goods exported in view of the availability of export credit at lower rates of interest.

(Para 4.10)

(RBI has strongly advised the banks in their circular No. CPC.BC.125/07.01.279/92-93 dated 11 November, 1992 to endeavour to reach by June, 1993 a minimum level of export credit equivalent to 10% of each bank's net bank credit).

3. Pre-shipment and Post-shipment Credit in <u>Foreign Currency - Rediscounting of Export Bills Abroad</u>

(a) RBI may consider the suggestion to allow the banks to rediscount the export bills at the opportune moment. For this purpose, it may initiate action to develop a domestic market for discounting of export bills.

(Para 5.8)

(b) RBI may consider the question of providing pre-shipment credit in foreign currency at International competitive rates for domestic portion of exported items also within the overall monetary and credit policy out of foreign exchange resources available with the banks or any line of credit arranged by them. It will reduce refinance availed of by banks from RBI.

(Para 5.9)

4. <u>Streamlining of Sanctioning Procedure for Loans and Advances</u>

(a) RBI may consider increasing the cut-off limit for application of Method II recommended under Tandon and Chore Committee Reports to the borrowers who enjoy working capital limit of Rs. 1 crore and above from banking system from the existing limit of Rs. 50 lakhs provided exports accounted for at least 25% of their total turnover. (Para 6.11) (Circular instructions already issued to banks by RBI vide IECD No. 17/08-12-01/92-93 dated 21.12.1992).

(b) The current time limit of 3 months given to banks for sanction of loans and advances is considered too long. The banks should sanction the applications for loans and advances (complete in all respects) within a period of one month in case of non-consortium loans and within a period of 45 days in case of consortium loans.

(Para 6.17{i})

(c) It is suggested that the current level of Rs. 5 crores and above stipulated for consortium method of lending may be raised to Rs. 10 crores and above which will enable many exporters to have their limits sanctioned expeditiously from their sole banker. (Para 6.17 {ii}). (on 5.1.1993, RBI has appointed a Committee under the Chairmanship of Shri J.V. Shetty, Chairman & Managing Director, Canara Bank, to review the existing system of lending under consortium arrangements).

(d) Banks should prescribe a system for annual review of adequacy or otherwise of delegation of powers to various functionaries for loans and advances. The system should provide for appropriate revision of limits upwards taking into account various variables like inflation, etc.

(Para 6.17 {iii})

(e) Special Cells may be set up in Regional Offices and Zonal Offices of banks to monitor sanction of limits with particular reference to export credit.

(Para 6.17 {iv})

(f) A mechanism may be designed by higher authorities of banks to deal with the exporters' grievances particularly with regard to timely sanction and adequacy of sanctioned facility. The Export Promotion Councils should render assistance to the banks.

(Para 6.17 {v})

(g) Banks and various Export Promotion Councils may conduct workshops for educating the exporters in proper submission of loan applications with supporting financial data.

(Para 6.17 {vi})

Ref. DBOD.No.BC.29/13:07:01-92 dated October 8, 1992

Interest rate structure for advances of scheduled commercial banks effective from 9th October 1992 (Excluding Interest Tax)

	Rate of Interest (% per annum)
1. Size of Limit	
xxx	xxx
2. Lending rate for commodities coming within the purview of Selective Credit Control (SCC)	
xxx	
3. Export Credit	
(1) Pre-shipment credit.	
(i) (a) Upto 180 days	14.0
(b) Beyond 180 days and upto 270 days	16.0
(ii) Against incentives receivable from Government covered by ECGC guarantee (upto 90 days)	14.0
(2) Post-shipment credit	
(i) Demand bills for transit perod (as specified by FEDAI)	14.0
(ii) Usance Bills (For total period comprising usance period of export bills, transit period, as specified by FEDAI, and grace period wherever applicable)	
(a) Upto 90 days	14.0
(b) Beyond 90 days and upto six months from date of shipment	18.0
(iii) Beyond six months from date of shipment	23.0
(iv) Against incentives receivable from Government covered by ECGC Guarantee (upto 90 days)	14.0
(v) Against undrawn balance (Upto 90 days)	14.0
(vi) Against retention money (for supplies portion only) payable within one year from the date of shipment (upto 90 days)	14.0
(3) Deferred Credit	
Deferred Credit for the period beyond 180 days	14.0
(4) Export Credit not otherwise specified	18.0 (Minimum)
(5) Post-shipment Export Credit Denominated in US Dollars	
(i) Demand bills for transit period (as specified by FEDAI)	6.5
(ii) Usance bills (for total period comprising usance period of export bills, transit period, as specified by FEDAI and grace period, wherever applicable) Upto six months from date of shipment	6.5
(iii) Export Credit Not Otherwise Specified for PSCFC	8.5*

(vide Directive DBOD.No.BC.44/13:07:01/92 dt. 12.10.1992) * effective 13.10.1992

CHAPTER 2

View Supporting the Reduction of Export Credit Interest Rate Structure

2.1 It is necessary to have a rational export credit policy aimed at compensating the exporting firms from the disadvantages arising from the cost of traded and non traded inputs which were priced higher in India than the world price and to ensure competitiveness. Provision of export credit at attractive and internationally comparable terms had to be adopted as an instrument of credit policy both by developed and developing countries.

2.2 Consequent on launching of structural reform process, a number of measures had been undertaken by Government with the intention of reducing the fiscal deficits and improving the balance of payment position. Specifically measures that were introduced to make the exports more attractive were downward adjustment in the exchange rate of rupee in July 1991, introduction of partial convertibility in place of exim scrip, simplification of procedures, introduction of five year exim policy with simplicity and transparency and self-certification by exporters under a passbook scheme. As contrasted with the above a number of policy measures affecting export finance and export viability had been implemented, viz., withdrawal of CCS, withdrawal of interest subsidy, a steep increase in interest rate of export credit both at pre-shipment and post-shipment stages. The nearly doubling of the earlier prevailing interest rate had increased the total cost of export product and reduced the competitive edge in the international market. Despite encouragement given by the trade policy measures exporters had found it difficult to achieve success in export efforts due to various factors including financial disincentives on export finance front. In the above context, the current trade policy initiatives which were found to be reasonably attractive for ensuring the better export performance had to be supplemented with favourable and good export credit policy.

2.3. Export finance at comparatively high rate of interest affects the competitiveness of export activity and also reduces exports which are highly needed to overcome the difficult balance of

payment position. Thus a lower rate of interest on export credit was advocated on the following grounds :

(i) The present interest rate on export credit at 15% was a positive real interest rate as compared to inflation rate estimated at 7.8% on 29 August 1992. The inflation rate had further fallen since 29 August and the current interest rate on export credit was double the inflation rate. The interest rate of 15% was fixed in October 1991 when the prevailing inflation rate was around 15.3%.

(ii) Over 30% of the exports originated from the small scale sector and high interest rate regime for production and export severely affected the small scale units.

(iii) The prevailing interest rate for export credit in India was amongst the highest in the world. The high cost on export right from manufacturing to the shipment stage was in sharp contrast to the strategy adopted by other developing countries and also developed countries such as Germany and Japan. A comparative statement is given in the Annexure 1.

(iv) The lower rate of interest on export credit was meant to compensate exporters for the high cost of inventories and poor infrastructural development. The burden of high interest rate was estimated to be around Rs. 1000 crores per annum to the exporting community. Besides, CCS was also withdrawn. Exporters are yet to receive Rs. 500 crores under CCS.

(v) To reverse the decline in the exports in 1985-86 in U.S. Dollar terms, the Government of India had reduced the interest rate in export credit from 12-1/2% to 9-1/2% and further reduced it to 7.5% in 1989 which had resulted in our export growth by over 17% in U.S. dollar terms during 1986-90.

(vi) Export credit constituted about 5% of the total bank deposits and it should not be difficult to adopt a liberal policy for provision of export credit while at the same time keeping a firm control on overall credit management of the economy.

(vii) The incidence of interest on export credit ranged around 5% on f.o.b. cost of the goods exported cutting into competitiveness of India's export which had got direct impact on export performance.

(viii) The proposed reduction in SLR and the increase in interest rate on Government Bonds, would lead to additionality of resources with banks for lending to export sector, besides reducing their cost of funds. If the funds were not lent to export sector at lower rates, the available funds with commercial banks might not be put into productive use and would indirectly accelerate the inflation rate.

2.4. Refinance from Reserve Bank of India

It was pointed out that under the existing policy of Reserve Bank of India, the refinance in respect of export credit was available under the two-tier formula based on the performance of the banks in 1988-89 and 1989-90. The formula adopted by the Reserve Bank of India was considered to be cumbersome and it did not benefit all the banks uniformly. Instead of such a two-tier formula it would be worthwhile to consider to have a single percentage of export credit outstanding which would be beneficial to all banks. To encourage the banks to give export credit without any reservation it would also be better if Reserve Bank gave 100% refinance to all banks uniformly, and such a step would benefit the country to overcome the balance of payment position.

2.5. The Gem & Jewellery Export Promotion Council had presented a paper giving the comparative cost of finance to the industry for the period 1989-90, 1990-91 and 1991-92, (Annexure II). In the inputs, apart from bank interest, they had included payments to banks on account of spread of exchange rate, the profit in foreign exchange rate on every export realisation and bank charges on every export transaction. The aggregate was taken by the Council as the total cost. Accordingly, they had worked out the percentage cost of finance which had increased from 11.42% to 25.16%. It was, however, pointed out to the Council that while reckoning interest cost of finance it had to be confined to interest cost only and that other variables should not be taken into account as they would vary from one type of industry to another

and also the profit on exchange rate and bank charges were constant for all types of export transactions. It was also pointed out that in order to save the spread of exchange rate the import intensive exporters had been given the facility of availing of pre-shipment credit in foreign currency either from Exim Bank or an Authorised Dealer and also maintenance of broad based foreign currency account by the exporter himself.

2.6. Exporters felt that lack of adequate infrastructural support was the reason for underutilisation of capacities. Prompt and sufficient supply of infrastructural facilities was necessary to promote efficient industrial performance and rapid development of the economy. Adequate infrastructural facilities like power and transport would have to be readily available for the smooth functioning of the small scale units. For this purpose, it was suggested that clear priorities and co-ordination of functions among the various segments of infrastructural base such as State Governments, Railways, Electricity Boards, etc., should be ensured so that exports of the country would perform better.

2.7. Taking into account all the aspects relating to the cost of credit to the exporters, the relative competitiveness of the exports on account of interest cost, the competitive interest rate structure in the neighbouring countries and ways and means to ensure free flow of credit to the export sector, the exporters were generally of the view that the recent doubling of interest rate alongwith withdrawal of export incentives such as Cash Compensatory Support (CCS), etc. had affected the international competitiveness of Indian exports adversely. They also felt that the other supportive measures such as LERMS, advance licences and exemption of tax on export profit, etc., as incentives were not adequate as the exports were also not doing well at present. Commerce Ministry at the highest level was also of the strong view that export finance interest rate should be brought down immediately to a single digit figure, the outer level in the present circumstances could at the most be 10%. It was also felt by Commerce Ministry that the exporters deserved all sympathetic consideration and reduction in interest rate on export finance would be an important component in their export efforts.

CHAPTER 3

Another view on Export Credit Interest Rate Structure

3.1. The rate of interest on export credit was often singled out as a major factor which inhibited export expansion. In order to examine the problem in its proper perspective, it was felt that the rationale of the interest rate policy of RBI should be spelt out in the context of the need to promote exports to overcome the balance of payment position.

3.2. With a view to providing part compensation to banks for extending adequate credit facilities to exporters, the Export Credit (Interest Subsidy) Scheme, 1968 was introduced in the same year in terms of which banks were entitled to interest subsidy at the rates determined by RBI, in consultation with Government of India, for extending export credit at concessive rates. The interest rates on export credit and interest subsidy made available from Market Development Assistance Fund of Ministry of Commerce were revised from time to time. With effect from August 1, 1986, the interest rates on preshipment credit, post-shipment credit and deferred payment exports credit were 9.5%, 9.5% and 8.65% p.a. respectively. Interest subsidy at a rate of 3% p.a. was available for pre and post-shipment credit on cash exports and at the rate of 1.5% p.a. for deferred payment exports.

3.3 The Standging Committee on Export Finançe (SCEF) in the meeting held on February 8, 1985 suggested that a Committee be set up to study the export credit interest rate structure in India. The Committee was headed by Dr. (Miss) S.K. Verghese, Sr. Professor, NIBM and its report was submitted in December 1986. The terms of reference of the Committee, among other things, included a study of the interest rates on credit extended for exports from India, taking into account the cost of funds and lending rates of commercial banks and lending institutions and a study of the impact of interest rates for export credit on the cost of production of certain major export items. The committee's main recommendation was that taking into account "the total cost of funds and a minimum margin of 1%, the minimum rate for Export Credit should be 12.1% and there was no scope for further reduction in the general export credit interest rates" (9.5% at that

time coupled with a subsidy of 3% paid to banks by Ministry of Commerce). The Committee recognised that no direct relationship could be established between interest rate reduction and export performance. It had also been indicated in the Report that cost of interest formed only 3% of the f.o.b. cost in majority of export items and in case of a few items, it was around 5%. It had also concluded that cheaper export credit could only be one of the several facilitating measures.

3.4 The member representing the Ministry of Commerce submitted a dissenting note to the conclusion of Verghese Committee Report. The contention of the representative of MOC was that one of the crucial factors that had affected the competitiveness of Indian products in world market was the interest rate at which exporters had to borrow funds from banks in India. It had been stated that the interest rate structure prevailing in the other competing developing countries was much lower. The note emphasised that Indian exporters should get export credit at lower rates so that they would be able to compete in the international market. It was felt that export sector would have to be given national priority in view of the utmost need not only to bridge the balance of payment gap but also to finance essential imports. It was also added that the then existing export incentive scheme such as CCS and duty drawback did not fully compensate for the domestic economic rigidities and taxation. It should be left to the government whether the 'losses' if any, incurred by banks should be borne by banks or government or recouped through adjustments of interest rates.

3.5. The recommendation of the Committee was not, however, taken into account by Government when in 1989 it decided, in order to promote exports, reduction in interest rate on export credit to 7.5% p.a. at preshipment stage and to 8.65% p.a. at postshipment stage from 9.5% p.a. with effect from 1 March 1989. Consequently, interest subsidy to banks was hiked to 5% and 3.85% for pre-shipment and post-shipment credit respectively, to maintain the level of return to the banks at 12.5%. These rates remained unchanged upto 31 March 1991.

3.6. In several forums exporters complained that they were not getting adequate export credit from the banks. It was observed that the banks were reluctant to extend export credit at the then

prevailing remuneration of 12.5% p.a. (including subsidy from the Government), in view of increase in the cost of funds to banks since the submission of the Verghese Committee Report. It was felt that a revision of export credit interest rate structure was needed and, therefore, the issue was put up before the Standing Committee on Export Finance in their 30th meeting held on 14 March 1991. The Committee was requested to consider the suggestion of setting up another Committee to study the export credit interest rate structure. It was indicated during the discussion by the bankers that the cost of export credit constituted a very negligible percentage of total cost of production of any export commodity and the interest component was definitely not a determining factor of export competitiveness. The concessive rate of interest also gave scope for the levy of countervailing duties by other countries. The Ministry of Commerce was against any proposal for increase in the export credit interest rate. In view of the above, no Committee was appointed to go into the export credit interest rate structure.

3.7. With the downward adjustments in the exchange rate of the rupee twice in July 1991, Government decided to abolish the subsidies on exports. Consequently, the Reserve Bank revised the interest rates on export credit provided by scheduled banks with effect from 6 August 1991. Interest rate on Export Credit both at pre-shipment stage and post-shipment stage was hiked to 12.5% p.a. For the bank there was no additional remuneration. The hike in interest rate was only to compensate banks for the loss of subsidy from the Government of India.

3.8. As voiced in various forums, the lower lending rates for exports were proving counter productive in view of higher returns available to banks in lending to other sectors. It was, therefore, considered essential that there should be some reasonable relationship between the rates of export credit and domestic credit. In view of the complaints that there was no free flow of credit to export sector, it was felt by Reserve Bank that getting timely and need based credit by exporters even at a relatively higher cost was preferable to a situation where rates of interest were kept lower but flow of credit was inadequate. Accodingly, interest rates on pre-shipment and post-shipment export credit were increased effective 9 October 1991, at the time of announcement of credit policy for the second half of the year

1991-92. The interest rate on export credit for the initial period was hiked from 12.5% to 15%. The rates for export credit were, however, always kept lower than the interest rates for other commercial loans; under the current interest rate structure, the rate of interest on export credit was lower by at least 4 percentage points compared to normal commercial lending rate.

3.9. A Scheme of Post-Shipment Export Credit in Foreign Currency (PSCFC) had been introduced with effect from 1 January 1992 to enable the exporters to avail themselves of post-shipment credit denominated in foreign currency and pay interest at comparatively lower rate of interest as applicable to the concerned foreign currency. The Scheme did not envisage making available actual foreign currency to the exporters. Only the post-shipment credit liability of the exporter will be denominated in foreign currency and it would have to be liquidated with export proceeds. PSCFC is available only in U.S. dollar for the present. In case of export bills drawn in other currencies, the credit could be drawn in U.S. Dollar by conversion at appropriate exchange rate. The exporters would have option to avail themselves of post-shipment credit either under the above Scheme or under the existing scheme denominated in Rupees. Similarly, banks would have option to extend the credit either under PSCFC or the existing Scheme. The interest rate to exporters under the Scheme was fixed at 8.5% p.a. on 1 January 1992 which had been lowered to 6.5% with effect from March 1992. The refinance under the Scheme was extended to the banks at an accelerated rate of 133-1/3% on the credit provided.

3.10. From commercial point of view banks might prefer to lend more to domestic sectors than to export sector because of interest rate differential. In order to ensure the free flow of credit to export sector, scheduled commercial banks were provided with export credit refinance by RBI. In the context of the prevailing tight monetary and credit policy, all refinancing and discretionary refinance facilities provided by RBI had been withdrawn in October 1991, except that of export refinance facility. With a view to encouraging flow of credit to export sector, the formula for export credit refinance had been relaxed form time to time in the recent past allowing banks to have larger access to RBI refinance.

The refinance was available as under :

The two-tier export refinance formula under which banks were being provided export credit refinance to the extent of 60 percent of the increase in outstanding export credit over the monthly average level of 1988-89 upto the monthly average level of 1989-90 plus 125 percent of the increase over the monthly average level of outstanding export credit in 1989-90. The rate of interest for the above refinance was 11% p.a. Under PSCFC Scheme where refinance is provided at an accelerated rate of 133-1/3 percent of the credit provided by a commercial bank (not on incremental basis) the rate of interest was 5.5% p.a.

3.11. The Reserve Bank's refinance policy whether it was for export credit or other sectors depended on the overall monetary and credit policy. As explained above the refinance window had been kept open for export credit only as a measure to support export activities. Prior to 27 July 1991 Reserve Bank had a single formula to grant export credit refinance where the refinance entitlement of a bank was worked out on the basis of incremental over a base year. The base year was shifted forward periodically which had the immediate effect of contraction of refinance limits of banks. This would, however, get recouped gradually with the increase in a bank's export credit portfolio. The two-tier formula had been introduced mainly to sustain the flow of export credit as otherwise the banks would have lost their entitlement when the base year was shifted. However, under the two-tier system they retained 60% of the earlier year's increase. This facilitated banks in meeting the credit requirements of the exporters particularly in view of the built in accelerator of 125 percent in the second tier of refinance entitlement. Wherever the export refinance formula was framed, not only the macro level of the credit and monetary policy was taken into account but also the position of individual banks was taken into account. Any change in the existing system would affect the refinance entitlement of certain banks and it was not considered necessary to change the refinance policy followed by Reserve Bank of India. Since September 1991 the refinance limits of banks had increased substantially and the total refinance limits as on 21st August 1992 stood at Rs. 7709 crores forming 62.32% of the outstanding export credit compared to Rs. 4262 crores of refinance limits forming 43% of the total export credit outstanding in September

1991. Needless to add any refinance from Reserve Bank would be out of created money and would have inflationary impact which would indirectly affect the competitiveness of the goods exported. Thus, Reserve Bank had to balance between the right quantum of flow of credit to export sector and also the macro level monetary policy.

3.12. For fixing the export credit interest rate other aspects which had to be taken into account were the cost of funds to the banks and also the cost of loanable funds. An analysis in this context had been made by the Verghese Commettee and using the latest data, the absolute cost of funds and the cost of loanable funds are given in the Annexure III. It would be seen from the Annexure that compared to absolute cost of funds of 14.75%, the export credit interest rate had been fixed at 15%. However, on the basis of cost of loanable funds, the cost to banks worked out to 16.8%. Compared to the current export credit interest rate of 15% the subsidy extended by banks came to 1.8% which was higher than 1.3% worked out in the Verghese Committee Report.

3.13. Thus, any lowering of interest rate below the cost of funds to the banks would result in the need to compensate the banks for the interest rate differential. There was inordinate delay in payment of subsidy to banks which added to their cost. Although, the subsidy had been withdrawn since August, 1991, the claims aggregating Rs. 154 crores from banks were still pending. It would not, therefore, be possible for the banking system to subsidise the export efforts on their own. Only for this reason when the Government abolished the export subsidies in August 1991, the interest rates were brought to the level of 12.5% from 7.5%. Any retracing of the step would need finding ways to compensate the banks and the proposal would not fit in the present policy of gradual abolition of subsidies to various sectors.

3.14. Another argument for lowering the interest rates was the availability of export credit at the lower rates of interest in countries which were our competitors in the field of export. Such inter-country comparison of interest rates without reference to other economic indicators would not be correct. Further, the interest rates on export credit should not be seen in isolation but should be taken as a part of package with other export supportive

measures. Any downward adjustment in the interest rate for one particular sector without corresponding changes for the other sectors would distort the interest rate structure particularly in relation to rates on deposits.

3.15. The member representing ECGC supported the view that banking sector should not be asked to bear further cost of subsidising the export credit; the export credit should be related to the cost of funds to the banks and also the cost of loanable funds. He also pointed out that ECGC was considering the introduction of export factoring service in India which would help the export sector. He added that the proposal of introduction of factoring would depend on the interest differential between export credit interest rate and the rate at which refinance was provided by Reserve Bank of India. The present spread of 4% would enable them to introduce the Scheme and any narrowing down of the spread between these two rates would come in the way of introducing the Scheme.

3.16. To summarise, it would be clear that RBI was constantly pursuing an objective policy in respect of export credit interest rates with a view to promoting export; at the same time it had to be ensured that the remuneration to the banks was not affected. The continuous flow of credit to this sector was far more important than the cost of credit. The objective was to strike a proper balance between the cost to the exporters and cost of funds of the banks. At the same time, it would not be a desirable policy in the context of current thinking on various subsidies to subsidise the interest rates on export credit as in the past. While the rates cannot be pegged at levels prior to 1st April 1991 (7.5% and 8.65%) taking into account the rate of inflation and the exchange value of the Rupee after the downward adjustment in the value of the Rupee in July 1991 and introduction of LERMS with effect from 2 March 1992, it had been ensured that export credit rates were always lower than the interest rates for other commercial loans. Further, RBI's refinance window was open only for export credit and the quantum of refinance limits had increased in the recent past with successive relaxations in the refinance formula. Any type of refinance is out of created money which might not fit into the current macro credit and monetary policy. The quantum of refinance limits had increased by more than Rs. 2962 crores since January 1992 till August 1992. It might not be possible to

sustain the refinance by RBI at this level for an indefinite period. Although, the inflation rate had come down to 7.8% as on 29 August 1992 on a point to point basis, the rate of inflation on average basis stood at 13.1% and the position had to be monitored continuously. The growth of exports had to be achieved by improvement in other areas such as quality of products, timely supply of goods, proper packaging, reduction of cost by increasing productivity etc.

3.17. The representatives of Reserve Bank, IBA, ECGC, FEDAI and Ministry of Finance were of the view that taking into account the constraints on the banks in lowering the interest rate for export finance in view of higher cost of funds to the banks, the limitation of RBI to extend refinance facilities for export credit beyond a certain level and also the lack of scope for the revival of compensation to the banks by way of interest subsidy in the context of present policy of doing away all the subsidies, it would not be feasible to consider any reduction of interest rate for export finance which was already lower than the rate of interest on normal commercial credit.

3.18. The Chairman and Members tried to reconcile the above diverse views after examining carefully all aspects of the issues involved including the monetary implications. It was decided that the issue might be left to the Reserve Bank taking into account the above views while announcing the busy season credit policies. The Committee emphasised that if there was going to be a policy decision to lower the minimum lending rate for commercial loan, it should be ensured that there was more than a corresponding reduction of export credit interest rate keeping the yield to the banks at the existing level by lowering the rate of interest on refinance.

3.19. The Committee also recommended that the tax on interest for export credit might be removed which would give some relief to the exporters. Similarly, it was also suggested that to give incentives to the banks to ensure flow of export credit, their earnings on export finance might be exempted from income tax as was being done for export profits.

CHAPTER 4

Flow and period of Export Credit

4.1. One of the important aspects for promotion of exports is flow of credit to the export sector. The members felt that this aspect had not been specially mentioned as one of the terms of reference. It was decided to cover this aspect also by the Committee.

4.2. The adequacy on credit availability could be considered in relation to actual total export of the country. The share of export credit outstanding to total exports is given below :

(Rs. in Crores).

Year	Total Exports	Total Credit Outstanding to Exports	% of Credit Outstanding
March 1987	12452	3269	26.3
March 1991	32553	9480	29.1
March 1992	43978	10695*	24.3
	(* Provisional)		

It would be noted from the above that the share of export credit outstanding to actual exports was low at 24.3% as against an average 26%, which was considered as essential to ensure smooth promotion of exports. The target for the current year's total exports had been put at Rs. 58,000 crores and accordingly, the quantum of export credit at 26% would come to Rs. 15,000 to 16,000 crores. As the export credit outstanding as of 21st August 1992 was only Rs. 12,366 crores, it was the view of some of the members that there was a shortfall in the availability of export credit. They also added that export credit as percentage of total bank credit had remained almost static at around 8% to 9%. It was also pointed out by them that although there was an increase in non-food credit it had perhaps been lent more outside of export credit. The rupee value of exports had gone up significantly after downward adjustments in the value of Rupee thus increasing the demand for additional export credit to meet rise in import costs. Exporters felt that the increase in credit

outstanding was not in commensurate with rupee value of exports after devaluation and they did not get adhoc limits from the banks also to take care of the sudden increase of the cost or spurt in receipt of export orders.

4.3. It was stated that it would not be correct to compare outstanding credit of a particular date with the total exports of the country which was being worked out on a cumulative basis from 1st April each year. So far no data on export credit had been collected on disbursement basis and hence a true picture would emerge only on comparison with the data on disbursement basis. It was indicated by RBI that in August 1992 a circular had been issued to all the banks to furnish the data of disbursements on cumulative basis from 1st April 1992 on quarterly basis. The data for June 1992 were expected from the banks shortly and the data in new format would enable RBI to review the flow of credit to the export sector in a scientific manner.

4.4 The export credit outstanding as at the end of March each year and also at the end of each quarter since September 1991 are given below :

(Rs. in crores)

Period	Export Credit Outstanding	Percentage to total bank Credit
March 1987	3269	5.16
March 1988	4180	5.54
March 1989	6609	7.27
March 1990	8559	8.31
March 1991	9480	8.15
September 1991	9912	8.40
December 1991	10566	8.80
March 1992	10788	8.70
June 1992	12020	9.00
21-08-1992	12366	9.20
11-12-1992	13188	9.30

There had been a marked increase over the years in the export credit outstanding, in particular since September 1991 when the export credit rate had been increased to 15%. It was also pointed out that even the export credit outstanding was very much nearer

to the total requirement estimated at Rs. 15,000 crores. It was noted by the Committee that the bank finance was available on a revolving basis. Apart from fixing normal credit limits for a customer on annual basis, adhoc limits were also being made available by the banks to the exporters on the basis of past performance and estimated projections. Of course, such adhoc limits would be in line with the existing limits.

4.5. It was felt that generally the flow of credit to the large scale exporters did not pose a problem and only in case of small and medium level exporters there were many complaints of refusal of bank finance. It was pointed out by a member that in case of smaller exporters the problem arose mainly on account of security that would be available to the banks. It was also noted that the liberal refinance formula from RBI and also with the easing of money market conditions there was enough liquidity in the banking system to cater to the needs of the exporters. It was also conveyed to the Committee that due to the security scam the bankers tended to be somewhat cautious in dealing with fresh loan applications.

4.6. For ensuring free flow of credit, a suggestion was made that export credit should be brought under priority sector lending, it was felt that banks would thus be compelled to lend to export sector and under priority sector lending, there could be a target for extending export credit. It was clarified that it was a conscious decision on the part of Reserve Bank to have not classified export credit under priority sector. It was pointed out that once the fixed target was achieved, the banks might not lend further. Logically no worthwhile export order should be turned down for want of bank finance and it would be better for the country's exports to ensure adequate funds flow into export sector. It was also added that in the current regime of deregulation and open economy and as already had been suggested in the Narasimham's Committee Report, banks should have freedom to lend their resources instead of chanellising them through directed credit. In the circumstances, it was noted that while there was no dispute as far as the requirement of smooth flow of credit to export sector was concerned, it should be left to the Government and Reserve Bank to monitor the flow of credit by forming an institutional mechanism.

4.7. It was noted by the Committee that on the basis of the recommendations of Narasimham Committee on the "Financial System" the Statutory Liquidity Ratio (SLR) had to be brought down to 25% of the net demand and time liabilities of the banking system in a phased manner. The Narasimham Committee had also suggested that Reserve Bank might consider a progressive reduction in the Cash Reserve Ratio (CRR) from its high level. Taking into account the need to meet the increasing demand of the export sector to achieve the current year's target of Rs. 58,000 crores, Reserve Bank might consider directing the banks to earmark to the extent necessary, the funds so released from SLR and CRR specifically to export sector.

4.8. A suggestion was made that a Committee could be formed to monitor the flow of credit to export sector and the Committee could consist of representatives from Reserve Bank of India, Ministry of Commerce, Ministry of Finance (Banking Division) and banks and the Committee could meet once in two months. It was pointed out that the data on disbursement would be received only on a quarterly basis from banks and there would be time lag in receipt of the data from banks as they would be required to consolidate the data supplied by a large network of banks and its branches. Reserve Bank of India already had a system to write to the Chairman and Managing Director of the banks whose performance in export credit was below the industry's average. This exercise was being done on a quarterly basis. Apart from this in all the credit budget meetings with individual banks and also in the credit policy meetings due emphasis was made for extension of export credit. The Committee suggested that the above exercise should be continued on an on-going basis and the Ministry of Commerce be duly kept informed about the flow of credit after receipt of data in the revised format. The flow of credit to export sector could be discussed by All India Export Advisory Committee meetings as one of the regular items of agenda. It is noted that this Committee meets every quarter.

4.9. Foreign Currency Borrowing for Packing Credit

A suggestion was made that exporters should be allowed to avail of packing credit in foreign currencies even for domestic purchases of raw material. It was suggested that similar to the Scheme of pre-shipment credit in foreign currency which was available for import contents of the exported goods, RBI might

consider the feasibility of introducing the Scheme for all export activity. The proposed scheme would enable the exporters to avail themselves of export credit at lower rate and it would also reduce the quantum of export credit refinance of RBI.

4.10. Period of Credit

At present export credit both at pre-shipment and post-shipment stages are available to the exporters as given in the Annexure IV. It would be seen that the packing credit was being made available at a lower rate of interest for a maximum period of 180 days which could be extended by the banks by another 90 days if the exports could not materialise for reasons beyond the control of the exporter. For the additional period of 90 days the interest rate applicable was 2 percentage points higher. While discussing the aspect of flow of funds one of the banks suggested if the period of packing credit could be reduced from 180 days to 120 days it would be possible to recycle the funds quickly which would indirectly benefit the exporters. It was also suggested that a lower rate could be prescribed for initial 120 days and a higher rate thereafter. The consensus of the Committee was that the existing periods of credit might be left undisturbed.

4.11. The Committee emphasised that the packing credit should be related to the cycle of production of the goods exported and the funds should not be misused. As the interest rates applicable for export credit was kept lower than the normal lending rates, there was scope for leakage of funds to other areas of investment. Further, in case of firms which catered both to domestic and international market the possibility of such misuse of funds was higher. The Committee was of unanimous opinion that credit which was made at lower rate should be utilised for the purpose for which it was given and any misuse of funds coming to the knowledge of the banks, export promotion councils, Reserve Bank and Government should be firmly dealt with. In this connection, a recent paper report of misuse of the credit facility available under PSCFC Scheme was also discussed. It has been reported in the paper that after availing of the credit at a concessional rate for longer duration of period, there was misuse of the facility by bringing back the funds to India under FC(NR)A Scheme to enjoy higher rate of interest. The Committee desired that tendency to such misuse of funds should be curbed in the bud and all concerned should help to eradicate such malpractices.

CHAPTER 5

Post-Shipment Credit Denominated in Foreign Currency (PSCFC) and Rediscounting of Bills Abroad

5.1. The export finance was available to exporters earlier at concessive rates of interest at 7.5% at pre-shipment stage and 8.65% at post-shipment stage. With the downward adjustments in the external value of the rupee twice in July 1991, the subsidies on exports including interest subsidy were abolished with effect from 6 August 1991. Accordingly, the export finance interest rates were hiked to 12.5% p.a. both at pre-shipment and post-shipment stages with effect from 6 August 1991 which were subsequently hiked to 15% with effect from 9 October 1991 to ensure flow of credit. The sudden hike in the interest rate structure for export credit had to be made in the context of the move towards policy of economic deregulation and openness. Against this background the Scheme of "Post-Shipment Credit Denominated in Foreign Currency" (PSCFC) has been introduced with effect from 1 January 1992 with a view to enabling the exporters to have Post-Shipment Credit denominated in Foreign Currency and pay interest at internationally competitive rates. The Scheme did not envisage placing foreign currency at the disposal of the exporters. They were to be paid rupee equivalent of foreign currency loan but their post-shipment credit liability was to be denominated in foreign currency. It was to be liquidated with realisation of export proceeds in foreign currency. Initially, PSCFC will be available in US dollars only. The exporter will have option to avail of post-shipment credit either under the above Scheme or under the existing Scheme denominated in Rupees. Similarly, the banks will have option to extend the credit under PSCFC or under the rupee credit scheme.

5.2. As the banks are required to pass on the rupee equivalent to the exporters and the rate of interest is lower compared to the conventional Scheme, the PSCFC Scheme provides for refinance from Reserve Bank of India with an accelerator. Initially, the Scheme did not take off as the banks found it not viable as the rate of interest on refinance was kept one percentage point higher than PSCFC rate chargeable to the exporter. With effect from 22 April 1992 the rate of interest on refinance has been kept 1% lower than the PSCFC rate charged to the borrower while at

the same time retaining the refinance accelerator at 133-1/3%. This made the Scheme attractive for banks and since the middle of May 1992, both the Indian banks and foreign banks are extending this credit to the exporters. The operational problems initially faced by the banks have also been overcome and all the banks have confirmed the implementation of the Scheme. As the execution of this Scheme requires expertise on the part of the staff of the bank branches, the banks have been advised to operate the Scheme only through selected branches which will be in a position to handle the transactions in an efficient manner.

5.3. A suggestion was made that the scheme should be extended if not in all permissible currencies, atleast in other 3 major currencies apart from US dollar, namely, Pound Sterling, Deutsche Mark and Japanese Yen. It was clarified that the major part of our exports i.e., approximately 60% was invoiced in US dollar and initially, the Scheme had been extended in US dollar only. There is no bar for routing the bills denominated in other currencies also under this Scheme. Already banks work out the cross rate for the currency concerned through US dollar and the same exchange rate is utilised to work out the amount of credit to be denominated in dollar. Interest too is calculated on the dollar amount so worked out. On realisation of the export bill the dollar liability of the exporter is extinguished fully irrespective of the cross rate prevailing on the date of realisation. The exporter does not at any stage remain exposed to additional risk on account of the loan being denominated in dollar. Use of cross currency rates through dollar is the normal banking practice in India even now to work out rupee counterpart of foreign currencies other than dollar. In case of non-payment, the bill will be crystallised into rupees at T.T. Selling rate of the foreign currency concerned and dollar credit outstanding against the exporter will be extinguished. On crystallisation the exporter will be required to pay interest at rates applicable for rupee credit from the date of advance. However, any gain or loss on subsequent realisation will be passed on to the exporters. The system will also be easier to operate. It was also pointed out that if the credit was made available in Pound Sterling or Deutsche Mark the higher interest rate of 12% and 10% for the respective currencies would be applicable and the exporter would have to pay this higher rate. The Scheme being a totally new exercise did not pick up initially but during the last 3 months the volume of credit under this scheme has increased

tremendously. Reserve Bank is monitoring the flow of credit under the Scheme. Further, under the present system, the rate for PSCFC is fixed by Reserve Bank of India taking into account movements in international rates in dollars. It will be operationally difficult to carry out this exercise simultaneously for all major currencies and keep all bank branches informed on an ongoing basis without there being any extra benefits to exporters.

5.4. It was stated on behalf of Reserve Bank of India that the accelerated rate of refinance extended under this Scheme had resulted in a large quantum jump in refinance and from monetary and credit policy point of view there has to be a limit for the quantum of refinance extended by Reserve Bank of India. It was also clarified that under statutory provision of Reserve Bank of India Act, the total quantum of refinance outstanding against a bank cannot be more than the export credit outstanding of the bank concerned. Thus, some banks especially the new ones and those who have increased their export finance portfolio in the recent past may not be in a position to get full benefit of accelerated refinance after reaching a certain level. It might be restricted to 100% of their export credit outstandings. It is one of the reasons for which the Scheme had not been made compulsary from the banks' point of view. The members generally welcomed the introduction of Scheme at the right time as it enabled the exporters to avail themselves of the post-shipment credit at internationally competitive rates. At the same time the limitation of the Scheme viz. credit is only denominated in foreign currency while the rupee resources are used for all practical purposes was noted. It was suggested that the best method would be to allow the rediscounting of export bills abroad so that there will be real accrual of dollar for paying to the exporters. The aspect of rediscounting of export bills abroad is discussed in the following paragraphs.

5.5. It was indicated that the question of allowing the banks to rediscount the export bills in the overseas market was being considered since 1980s and so far it has not been resorted to for various policy considerations. In the background of general resources constraints experienced by banks resulting in export sector not getting as much credit as it would like to have, the Standing Committee on Export Finance (SCEF) appointed in September, 1980, a sub-group under the Chairmanship of

Dr. V.L. Kelkar, the then Economic Adviser, Ministry of Commerce and Civil Supplies to examine the possibility of raising finance from commercial sources abroad. The Report was submitted in February 1982 recommending that banks be permitted to redis-count the export bills in the overseas money market and also to go in for acceptance financing for export as well as imports. In view of the comfortable liquidity position in the banking system since the submission of the Committee's Report the recommendation had not been implemented till date.

5.6. As a follow up action on the outstanding items of the agenda, the matter was discussed in the 30th Meeting of SCEF held on 14th March 1991 in the context of critical balance of payment position and low foreign exchange reserves. In the Committee it was suggested that the rediscounting on export bills could be considered even at a price especially if it helped to quicken the repatriation of export proceeds. However, Credit Planning Cell of Reserve Bank indicated that as there was adequate export refinance facility available from Reserve Bank, the proposal would aggravate monetary pressure and make liquidity management much more difficult. At that time it was also felt that because of the low credit rating of the country it would not be the proper time to consider the issue. The matter was being reviewed from time to time. However, in view of the continued low "country rating" the matter was not pursued further. After the recent liberalisation in the trade policy and exchange control and also in the context of the improved foreign exchange reserves position, the Committee felt that the feasibility of rediscounting the export bills in the foreign market could be explored. While considering the proposal the following aspects had to be taken into account :

(i) The cost of discount will result in the outflow of foreign exchange for the country. This cost will have to be weighed against the benefits that would accrue under the proposed arrangement.

(ii) If the rediscounting is resorted to, it has to be seen whether it will be with recourse or without recourse to the borrowers. If it is with recourse to the borrower, in case of non-realisation of the proceeds the country may have to allow remittances of foreign exchange abroad.

(iii) The procedural aspects regading completion of GRI formalities have to be worked out.

(iv) Most of the export bills in India are for small value and in different currencies. In the international market it will not be possible to rediscount the bills below a minimum lot and accordingly unless an internationally reputed institution accepted the bills initially it may not be possible for the smaller exporters to avail of the facility.

(v) There has to be a well developed domestic market for discounting of export bills initially which could later on be rediscounted abroad by the bigger player in the market who will be acceptable in the international market. This will help to cover the export bills of smaller value.

(vi) The changes if any in the method of getting ECGC cover will have to be settled.

5.7. The Committee discussed the various aspects listed above and came to the conclusion that allowing the banks to rediscount the bills would be a good method for flow of credit to export sector at internationally competitive rates and it could replace the PSCFC Scheme. Thus, it would also eliminate the necessity of Reserve Bank to extend refinance to the banks under PSCFC with an accelerator. As the country marches towards the full convertibility it will be easier to operate the system. At present under LERMS exporters are allowed if they so desire to keep 15% of export proceeds in EEFC Accounts with the banks. Banks are also allowed to buy 60% of all the current account receipts at market rates. To that extent the banks will have foreign exchange resources which could be used initially for discounting the bills and where necessary they could resort to rediscounting abroad.

5.8. In the meantime the possibility of utilising the foreign exchange resources of the commercial banks for the purpose of discounting the export bills could be explored. It is recommended that Reserve Bank may consider the above suggestions indepth and allow the banks to rediscount the export bills at the opportune time. For this purpose it may also initiate action to develop a domestic market for discountiing of export bills.

This will be necessary in the event of introduction of full convertibility for current account transactions.

5.9. The question of providing pre-shipment credit in foreign exchange at internationally competitive rates for domestic portion of the exported items could also be considered by the RBI within the overall monetary and credit policy out of the foreign exchange resources available with the banks or by any line of credit arranged by them. This would amount to accrual of foreign exchange before goods have even been shipped. It was noted that even now RBI does permit exporters to accept advance remittance from his overseas buyers and it enables the exporters to save on interest cost. In such cases there will be no need to provide refinance by RBI and it should help to achieve the overall policy objective of the country.

CHAPTER 6

Application of Credit Norms for Export Credit and Streamlining Sanctioning Procedure for Export Finance

6.1. The two major demands generally made by the exporters and the exporting organisations/councils in respect of export finance are (i) cost and flow (quantum) of credit, and (ii) the credit norms stipulated for sanctioning of export credit which they felt affected their performance indirectly in getting adequate and timely credit. While the issue under item No. (i) has been covered in the earlier chapters, in this chapter the aspects relating to the credit norms for sanction of loans, in particular with reference to export finance and also the delay in sanctioning of credit limits are discussed taking into account the views expressed by the exporters and the bankers. Apart from considering the problems relating to the existing credit norms, suggestions for overcoming the problems identified and also relaxations with specific reference to export credit are suggested at the end of the chapter for consideration of Reserve Bank of India.

6.2. One of the main requirements of any industry including that of exports is the availability of working capital finance. The working capital finance is made available generally through cash credit account for acquisition of current assets and is repayable on demand. It is thus a short term lending and gets liquidated with the realisation of sale proceeds by the borrower. Historically, the banks were following security oriented systems which favoured only the borrowers with strong financial resources irrespective of the economic viability of the unit.

6.3. Banks are the major mobiliser of savings and are expected to finance diverse productive activities provided these are economically viable. The bank credit has thus to play a crucial role in allocation of resources for economic development of the country. While the banks' funds are meant to look after the genuine requirements of a borrower, the scope exists for these being utilised for an undue build-up of inventory and hoarding of scarce raw material which might create several problems besides fuelling inflation. The banks are required to meet larger credit demands arising from growth requirements taking also in-

to account the priorities laid down by Government and RBI from time to time. At the same time they have to ensure that the tendency on the part of the borrowers to build up unduly large inventories or to misdirect the credit is curbed. To take care of the above objectives the credit dispensation system is required to cover the following aspects:

(i) to make the customer plan his credit need in advance and observe a discipline in its use,

(ii) the borrower to indicate to the banker the likely demand for credit to enable the bank to plan deployment of its resources,

(iii) to ensure continuous flow of finance to industry for its genuine production needs, and

(iv) prescribe a proper information system which gives feedback about use of credit to the bank.

6.4. A banker's role as a lender will be to supplement the borrower's resources in carrying a reasonable level of current assets in relation to his production requirements. Norms have been prescribed by RBI in consultation with banks and industry which define the reasonable level with reference to a large number of industries. In cases of industries where norms have not been specified, past holdings are adopted as norms. The working capital gap after taking into account the borrower's resources and holding a certain level of credit is bridged by bank borrowings, it is also described as permissible bank finance. The Tandon/Chore Committee suggested the following three alternatives for working out the maximum permissible level of bank borrowings :

(i) Bank can work out the working capital gap, i.e., total current assets less current liabilities other than bank borrowings and finance a maximum of 75 percent of the gap; the balance is to come out of owner's long term surplus funds, i.e. surplus available after financing fixed assets. This would give a current ratio of 1.17:1.

(ii) Borrower to provide for a minimum of 25 percent of total current assets out of surplus long term funds. In addition,

a certain level of credit purchases and other current liabilites would finance a part of the current assets and the gap would be filled by bank finance. Thus the total current liabilities inclusive of bank borrowings will not exceed 75 per cent of current assets. This will result in a current ratio of 1.33:1.

(iii) This is a modification of (ii) above. Borrower is to finance (i) core portion of current assets out of his long term resources and (ii) 25 percent of the remaining current assets also out of his long term resources. The gap after taking into account current liabilities is to be met out of bank finance. Under this method, the current ratio would work out as 1.79:1.

It has been suggested that method (iii) is an ideal one which would provide the largest multiplier of bank credits and therefore all out efforts should be made to shift from 1st method to 2nd method and thereafter to the 3rd method.

6.5. As on date alternative (i) and (ii) only are applicable to borrowers. All those units having credit limits in excess of Rs. 50 lakhs from banking system are required to adopt the method (ii) which would give a current ratio of at least 1.33:1. The reckoning of MPBF on the basis of given current assets and liabilities both by the (i) and (ii) method of lending is given in the Annexure V.

6.6. A suggestion has been made that the entire export credit should be kept outside the purview of the credit norms. It was explained that export credit formed a part of the overall credit limits sanctioned by the banks to a customer on the basis of production and sales projected by the customer and from the banks' security point of view, there would be no justification for providing export credit over and above the sanctioned credit limits unless the banker is convinced that the said credit is to look after production which is clearly over and above the projections accepted earlier. If this demand is accepted it would amount to placing additional resources in the hands of a borrower without matching additionality in production or would result in excess bank credit to the exporter without a corresponding increase in the contribution out of his long term resources and thus causing a slip back in the current ratio. Since the long term objective was to adopt method (iii), it

would be a retrogatory step to dilute the rigours of Method (ii). It was also pointed out that taking into account the importance of exports, already the norms under 2nd method of lending as per Tandon/Chore Committee had been relaxed as far as the export credit was concerned. Under the relaxation, while the export receivables could be included in the total current assets for arriving at the MPBF, it would be excluded for working out the minimum stipulated NWC (i.e., 25% of the total current assets). This relaxation is not available to the borrowers catering to the domestic market. From the example given in the annexure it would be seen that by the relaxation already available the exporter would be entitled to a certain amount of additional bank finance than what he would have been eligible for under the normal discipline, with a corresponding reduction in the minimum NWC to be provided by him. The current ratio deteriorates almost to the level prescribed for method (i) of lending. It would not thus be prudent to altogether exempt the export credit from the credit drill and also the minimum stake of the exporter has to be ensured.

6.7. One of the suggestions made was that the exporters could be allowed to maintain a current ratio under method (i), i.e., 1.17:1. It was pointed out that if the method (i) was adopted, the concession available for excluding export receivables under method (ii) would no longer be available. As the existing arrangement was found more beneficial from the point of view of certain industries such as Gem & Jewellery, members were not in favour of adopting method (i) at the cost of losing the relaxation. A suggestion was also made that the relaxation of excluding the export-receivables for reckoning the NWC, available under method (ii) could also be extended to method (i). It could lead to a situation where the current ratio could deteriorate to less than 1 and such proposals would therefore cease to be bankable. However, the committee felt that it should be examined further in consultation with exporters.

6.8. Another suggestion made was that a current ratio of 1.10:1 could be applied to export related activity. The Council for Leather Exports had given a working sheet showing the MPBF and contribution of the owner on the basis of their suggested method vide Annexure VI. The ratio of owners stake to MPBF got diluted from 1:3 to 1:9 under Method I and the similar ratio of 1:3.5 to

1:10.6 under Method II. It was pointed out by the banks that apart from razor thin stake of the exporter it would be difficult to segregate the inventories meant for domestic and export activities and it would not be possible to adopt the method unless the inventories are segregated and also separate balance sheets are prepared for exports and domestic activities.

6.9. A suggestion was made that the South Korean system (Annexure VII) could be adopted for disbursement of export credit in India. It was clarified that in South Korea 4 kinds of export loans were provided viz., (a) for production (b) for indigenous raw material for export, (c) imported raw materials for exports and (d) an integrated export loan. The export credit was provided for 180 days. The quantum of export credit made available was different for small and big companies. (The information regarding norms applied for classification of small and big companies was not available). The export loan is provided against L/C or actual exports made during January-March (1992). The quantum of loan depended on the exchange rate for South Korean currency, viz., Won per U.S. Dollar and it varied depending on the category of the loan and also the size of the company. An example for the method of sanction of export credit is given below :

Won per U.S. Dollar

	For production Material	Imported Raw Material	Korean Raw Export	Integrated Loan
Small Company	630	490	700	650
Big Company	360	300	440	400

Note: Above indicates the quantum of eligible export loan against one U.S. dollar of exports: the ruling exchange rate was US$ 1 = Won 792.

It would be observed that the average quantum of loan for a small company varied from 62% to 88% and in case of bigger companies, it was only from 37% to 55%.

6.10. It would be seen that under the existing method of sanction of working capital requirements as followed by banks in India, exporters were entitled to more finance at 75% and it was uniformly available to all companies. Further, at the post-ship-

ment stage the Indian formula was even more flexible. It was noted that the processing of export credit applications by banks in South Korea took one day only. It was clarified by the bankers that even in India, once the credit limits were granted to the exporters, drawals within the limits were automatic and the exporters were not required to obtain sanction for every successive withdrawal. The Committee considered the Korean System and noted that the export credit was granted as a percentage of the exchange rate. Further, the owners' stake was much higher than that prevailing in India.

6.11. It was indicated that by and large the needs of the bigger exporters were taken care of and the difficulty in complying with the credit norms were felt mainly by smaller exporters. One of the suggestions made was that benchmark of Rs. 50 lakhs for application of the Method (ii) could be raised so that the requirement of margin out of long term resources of borrowers could be eased in the case of small exporters and they be entitled to higher support from the banking system. It is accordingly suggested that Reserve Bank may consider to increase the cut-off limit for application of Method (ii) to the borrowers who enjoy working capital limit of Rs. 1 crore and above from banking system provided exports account for at least 25% of their total turnover.

6.12. Sanctioning Procedure for Loans

In order to study the existing procedure of sanctioning export finance in commercial banks, a comprehensive questionnaire (as per Annexure VIII) was prepared and sent to 20 banks comprising 16 public sector, 3 foreign and one leading private sector banks. Replies have been received from 15 banks. The objective of the study was to ascertain :

(a) Reasons for inordinate delay in sanctioning credit limits by banks as alleged by the representatives of Export Promotion Councils and Organisations and also by Individual Exporters.

(b) Adequacy of existing procedures including sanctioning powers to cope up with the need of expeditious credit disbursement to exporters.

(c) Scope for improvement.

The feedback received from the banks has been consolidated and given below. The suggestions received from the banks have also been listed below. After an analysis of the suggestions received from the banks, the Committee's recommendations are given in the end.

6.13. Reasons of Delay

Reasons for delay in sanctioning and disbursing credit facilities to exporters can be divided into two broad categories consisting of (i) administrative or procedural delay in banks, and (ii) the deficiencies in the application forms prescribed for exporter borrowers. The major reasons as listed by a number of bankers themselves under first category are given below :

(a) Banks

(i) Non-availability of authorised officials at Central Office/Administrative Offices.

(ii) Holding of Board/Management Committee meetings at longer intervals.

(iii) Inadequate sanctioning powers to Chairman and Managing Director and other executives and also to the functionaries at the branch level.

(iv) Undue delay in joint appraisal in case of consortium advances.

(v) Avoidable correspondence between the borrower customer and the bank branch.

(vi) Lack of trained staff.

(vii) Non-availability of latest internal and RBI guidelines/ rules on the subject at the branches.

(viii) Lack of appreciation regarding the importance of export on the part of officials handling credit portfolio.

(ix) Delay in receipt of clarifications from the branches on queries raised by Head Office.

(x) Inability of the leader of the consortium to assess customers' requirements; the meetings of banks not held in time and sharing pattern of facilities not decided within reasonable time.

(xi) On profitability consideration as interest rates on export credit are lower.

(xii) Absence of the procedure of issuing acknowledgment of exporters' application and indicating likely disposal period/date.

(b) Exporter Borrowers

The banks have also reported a number of deficiencies in the proposals submitted by exporter borrowers inhibiting quick disposal of credit facilities. These are listed below:

(i) Non-submission of Audited Financial Statements.

(ii) Incomplete CMA and other data.

(iii) Lack of information regarding Assets/Liabilities i.e., credit information report on directors and partners.

(iv) Non-submission of complete particulars as required in the application forms.

(v) Piece-meal submission of information.

(vi) Unrealistic and ambitious projections.

(vii) Irregularities in accounts.

(viii) Non Compliance with terms and conditions stipulated in the past.

(ix) Irregular/Non-submission of stock statements.

(x) Weak financial position.

(xi) Lack of transparency in dealing with banks.

(xii) Dealing with more than one banker under separate independent assignments.

(xiii) Non-submission of documents.

(xiv) Delay in submission of export order/L.C.

(xv) Diversion of funds obtained at lower rates of interest.

(xvi) Delay in obtaining status report on the importer.

(xvii) Inadequate information regarding premium of r-ance/country risk before accepting export o'

(xviii) Lack of full confidence in exporter.

(c) Others

(i) RBI's credit policy
(ii) Inadequate insurance cover.

6.14. Existing Procedures in Banks

(A) Delegation of Sanctioning power (Authority)

The study of 12 public sector banks and three foreign banks reveals that the quantum of delegated financial powers varied from bank to bank depending on their exposure, expertise available and perception of risk as well as need for encouraging Export Credit. While one foreign bank branch, on its own could approve/sanction total facilities between Rs. 3 crores to Rs. 7.5 crores, even large branches of Public sector banks had powers between Rs. 4 lacs to Rs. 32 lacs only and very large branches between Rs. 10 lacs and Rs. 105 lacs. A few banks had provided full powers for post-shipment bill limit under letter of credit of approved banks. Since large and very large branches of commercial banks handled sizable export credit there is strong case for upward revision of sanctioning authority of designated branches. One bank has suggested that such branches may be authorised to exercise powers delegated to the next higher category, i.e., large branches to have powers delegated to very large

branches and very large branches that of exceptionally large branches (ELBS). As the delay in sanction of credit limits has direct relationship with the sanctioning powers of the branch concerned, the above suggestion may be useful in reducing the delay.

(B) Temporary Limits

The study shows that every bank has a provision for their functionaries exceeding their delegated authority for a temporary period. The quantum varies from bank to bank and ranges between 5% to 33%. In most of the banks, however, the range was between 10% to 20%.

(C) Ad-hoc Limit

Most banks have the system of allowing ad-hoc limits within overall delegated authorities which takes care of sanction of temporary limits. A few banks do not allow such practice as a part of their overall financial discipline. In order to mitigate the difficulties to exporters in case of urgent unexpected export order the suggestion of one of the foreign banks is that complete interchangeability of packing credit and other cash credit facilities within the overall sanctioned limit be allowed. However, such facilities should be restricted to packing credit against letter of credit only. This along with grant of full power to sanction post-shipment credit against letters of credit may help to meet the urgent needs of exporters.

(D) Special Dispensation

Most of the banks have confirmed that they do not provide any special concession other than those provided by RBI stipulations. However, a number of banks have also confirmed that lower margin in case of packing credit and waiver of entire margin in case of bill discounting/purchasing has been adopted by banks. In case of some banks the margin is decided in consultation with exporters. Apart from these concessions some banks exclude bills negotiated under letters of credit from Maximum Permissible Bank Finance while others do not allow such facilities.

(E) Review of Delegation

Although all the banks have stated that the delegation of powers are reviewed periodically by them, there is no provision of yearly review in most of the reporting nationalised banks. In one bank the last review was done as far back as in 1988. The foreign banks have reported annual review of the powers. It has not been suggested that every review must necessarily result in enhancement of delegated powers.

(F) Supervision and Control

Normal practice of supervision and control is through periodical reporting and inspection. A few banks have adopted the procedure of scrutiny of entire proposal/ sanction by higher authority.

(G) Normal Time Fixed for Sanctioning

Normal time fixed for sanction as reported by banks varies from 7 days to 3 months. Foreign banks have fixed generally lower period because of higher financial powers to their branches and much faster and efficient communication system. In case of public sector banks time fixed varies between 15 days to 3 months. Obviously, the period can be substantially reduced. Though the banks have mentioned various deficiencies in the proposals as the major reason for the delay, a number of procedural and administrative hurdles leave sufficient scope to reduce the period for sanctioning credit facilities.

(H) Actual Time Taken

Almost all the banks have reported to have cleared the proposals within the above time frame. The number of complaints received from individual exporters as well as Export Promotion Councils, however, reveal a different picture, and the position may not be as satisfactory as claimed by the banks.

(I) Complaints Redressal Mechanism

There appears to be no uniform system to deal with customers complaints regarding delay in sanction. While some banks claim to have customer service division, others rely mainly upon normal channels of registering complaints and its disposal.

6.15. (A) Scope for Improvement

Suggestions were also invited from the banks, towards improving credit disbursal system in the commercial banks. Suggestions given by banks are listed below :

(i) Acknowledgement of application for borrowing and probable disposal date.

(ii) Higher sanctioning powers at all levels.

(iii) Opening of specialised EXIM branches.

(iv) Special Cells at Regional/Zonal offices to deal with export credit.

(v) To obtain information through personal discussion rather than correspondence.

(vi) Customer education towards procedural requirements.

(vii) Dissemination of information available with banks to customer regarding potential of export business.

(viii) Fixing 15 days limit towards disposal of export credit.

(ix) Conduct of Workshops for the benefit of exporters in major centres with regard to the procedure for sanction of loans.

(x) Executives from Head Office should meet the exporters at major centres during their visit to appreciate the problems of the exporters.

(B) Measures to be Taken by Exporters

(i) To furnish full information at the time of application.

(ii) Absolute transparency in dealing with bank.

(iii) No dual banking and to obtain entire export finance from one banker.

(iv) Submission of ducuments strictly as per terms and conditions of letters of credit.

(v) Increasing the borrower's stake in the business

(vi) Prior consultation of ECGC before obtaining/accepting letters of credit.

(C) Measures to be taken by others

(i) Liberal refinance to reduce resource constraints.

(ii) Stable credit policy towards quantum of credit as well as interest rate.

(iii) Interest rate of export finance to move in direct proportion to refinance interest rate.

(iv) Simpler procedure of ECGC to expedite settlement.

(v) Whole turnover policy of ECGC to be made more useful.

(vi) Subsidy on export finance by the Government.

6.16. The delay in sanctioning of limits to the borrowers and in particular to exporter borrowers was discussed threadbare by the Committee. For this purpose, a few local bankers were also invited for discussion. It was noted by the Committee that exporters were not required to apply for availment of credit for execution of every single export order. The normal banking practice is to sanction a limit upto which credit could be availed within which individual withdrawals are effected. To the extent

export proceeds are realised and exporters' account credited limit gets restored, making possible further drawals. Limit is sanctioned for a year taking into account past performance and also future projections. Although it was accepted that there might be delays in sanction of limits, banks clarified that normally the existing facilities were not withdrawn pending renewal for a further period or even sanction of additional limits. The borrowers continued to enjoy the existing limits and the flow of credit was not hampered at any point of time. Further, the bankers stated that there was provision to grant ad-hoc and temporary limits if regular sanction was likely to take more time. This view was supported by some other members of the Committee who happened to be on the Board of the banks. They mentioned that in all its meetings confirmation of a long list of ad-hoc and temporary sanctions was required to be given by the Board. After discussion the Committee felt that the present stipulation of three months for sanction of loan was too long a period and it should be reduced.

6.17. Recommendations

On the basis of the feedback received from the commercial banks and also the discussions held by the Committee, the following suggestions are made to quicken the process of sanction of the loans and advances with particular reference to exporters.

(i) Banks should sanction the applications for loans and advances (complete in all respects) within a period of one month in case of non-consortium loans and within a period of 45 days in case of consortium loans.

(ii) Many of the export organisations attributed consortium method of lending as the main cause of delay in case of large borrowers. It may be mentioned that as per RBI instructions, formation of a consortium is mandatory if a borrower enjoys working capital limit of Rs. 5 crores and above from the banking system. While sanction for a consortium cannot be totally dispensed with in the case of large borrowers, it is suggested that the current cut off level of Rs. 5 crores mentioned above may be raised to Rs. 10 crores. This will enable many exporters to have their limits

sanctioned expeditiously from their sole bankers.

(iii) A system for annual review of adequacy or otherwise of delegation of powers in banks to various functionaries for loans and advances should be prescribed. The system should provide for appropriate revision of limits upwards taking into account the rate of inflation, the impact of the depreciation in the value of the rupee in the case of import related exports and the number of cases that are required to be referred to the higher authorities.

(iv) Special Cells may be set up at Regional Offices and Zonal Offices of banks to monitor the sanction of limits with particular reference to export credit.

(v) There appears to be no uniform system to deal with customers' complaints regarding delay in sanction. Looking to the fact that borrowers would in most cases be reluctant to complain against the bank functionaries to the higher authorities in the banks for the fear of inviting trouble in subsequent dealings, it is imperative that some mechanism be devised by the said higher authorities themselves to deal with exporters' grievances particularly with regard to timely sanction and adequacy of sanctioned facility. They may seek the assistance of various Export Promotion Councils to identify the cases where hardship has been caused and then try to sort out problems at the ground level. They may thus ensure that such problems would not arise in future.

(vi) There may be regular system of educating the exporters in proper submission of loan applications with necessary financial data. The banks and various export councils may arrange to conduct workshops periodically at various centres.

6.18. Customer Service

Another important aspect discussed by the Committee was the customer service at the branches of banks handling foreign exchange business. The general complaint was that customer service rendered to the exporters at the bank branches handling

foreign exchange business, particularly the branches located in other than metropolitan centres was not satisfactory. It was stated that the staff did not possess the required expertise to handle export transactions expeditiously. The lack of infrastructural facilities like telex, fax, etc., for efficient communications at such branches was also highlighted. The Committee felt that there could be no two opinions regarding the need to render satisfactory customer service to all and in particular to exporters. It was mentioned that both Reserve Bank of India and FEDAI were closely monitoring the customer service rendered by the banks. It was pointed out that Reserve Bank had been issuing detailed instructions to the banks in this regard from time to time and the last circular on the subject was issued on 31 August 1991. The aspects covered in the circular are highlighted below to enable the banks to initiate appropriate action where necessary:

(i) Head Offices should ensure that all branches authorised to handle foreign exchange transactions are equipped with necessary infrastructural facilities and trained staff.

(ii) It should be ensured that the documents submitted by the exporters are forwarded by the bank branches to overseas correspondents without any delay.

(iii) The branches should ensure that the time lag between the date of credit to Nostro Account and the date of passing on the rupee credit to customer should be the minimum required operationally for transfer of funds.

(iv) The time schedule fixed by FEDAI for credit of export bills drawn in rupees should be adhrered to.

6.19. FEDAI has brought out a publication on "Rules of FEDAI" effective 1 June 1991 where various charges to be levied by banks and also the time schedule for handling various types of transactions have been laid down. Reserve Bank has advised the banks to ensure that the charges levied for various types of transactions are strictly according to the rules of FEDAI.

6.20. The question of payment of compensation to the customers due to delay on the part of crediting proceeds of export bills had also

been examined by Reserve Bank of India in consultation with FEDAI. In April 1992 FEDAI had prescribed time schedule for transfer of proceeds of foreign currency bills as well as rupee bills to exporters' bank. If the transfers were not completed within 7 days from time schedule fixed for the purpose, compensation would be due payable by the defaulting bank to the exporter. The compensation would be a sum equivalent of interest charged on the outstanding export credit from the date of expiry of the period prescribed by FEDAI for execution of payment orders. Seven days' grace available to banks as mentioned above will not be excluded for calculating the amount of compensation.

6.21. It is also necessary for the exporters to ensure that correct particulars are provided in the payment instructions so that the banks will be in a position to identify the transaction. In a vast country like ours the export activity is spread over the entire country. Further, there are many branches handling the export transactions and generally the correspondent banks abroad are not familiar with the names of Indian banks and their branches. It is, therefore, essential that the exporters arrange with their overseas buyers for giving full particulars of the transactions to enable the concerned banks (Exporters' bank in India and latter's correspondent abroad) to identify and effect the payment within the scheduled time. The exporters could take up the matter with Reserve Bank of India and FEDAI for any lapse on the part of a bank branch in following the guidelines of RBI and FEDAI. At the same time the export councils and organisations may educate their members on the need to furnish full particulars of the transactions for prompt payment which would benefit not only the exporters but also the country.

CHAPTER 7

Clarifications on Operational Problems

Individual exporters and exporting councils and organisations had been seeking clarification on many operational problems in various open house meets. After the constitution of the Committee, many suggestions and clarifications had been received/sought. It was felt by the Committee that these points could be listed and clarifications given/ position explained for the benefit of all exporters/banks/institutions and government departments associated with export activity. Accordingly, in the following paragraphs, these points have been listed and clarification given :

1. The Gem & Jewellery Export Promotion Council desired to have the inventory norms as existed on 6 October 1988. They felt that the current norms resulted in lesser availability of credit. The proposal required the existing norm which gives a cycle of 6½ months be raised to earlier norm of 8 months.

The inventory norms as applicable to various industries are periodically reviewed by Reserve Bank of India on the basis of recommendations of the Committee of Direction. The Committee has a few banks and financial institutions as its members and is chaired by an Executive Director of RBI. Norms for individual industries are fixed in consultation with the representatives of the industry and are reviewed taking into account latest developments. The Gem & Jewellery Export Promotion Council has already made a request for the review of the inventory norms applicable to their industry. This will also be referred to Committee of Direction. A final view will be taken keeping in view COD's recommendation.

(Action: IECD)

2. The commercial banks have been instructed by Reserve Bank of India to reduce the advances to the level outstandings as on a particular date and this has resulted in non-availability of adequate credit.

The banks generally meet their lending commitments out of resources mobilised in the form of deposits. Market borrowings are resorted to only for meeting temporary resource gaps. Prudent fund

management would require a bank to maintain a reasonable credit-deposit ratio so as to keep the borrowings to the minimum and thus minimise the cost of funds. Accordingly, certain banks who did not comply with that credit-deposit ratio and have landed themselves in an over-extended position have been asked to freeze lending as on a cut-off date in their own interest. Only few banks have been covered by this stipulation and even here the concerned banks have been instructed to meet the demands of the exporters within the existing limits sanctioned to them. Once the banks concerned bring their credit-deposit ratio within accptable norms, the stipulation will be removed. Otherwise, Reserve Bank ensures free flow of credit to export sector. In cases where banks have over-extended credit position, the exporter may have to approach some other bank for additional limits.

3. As per RBI guidelines, the advances against packing credit have to be liquidated by negotiation of documents. If the Letter of Credit is restricted to a bank other than the one from whom the exporter has taken pre-shipment advance, the concessional rate of interest was not extended to him. In such cases, banks also levied extra handling charges.

When a bank extends packing credit, it does so at a lower rate of interest compared to normal lending rate. Hence, the end-use of the funds has to be monitored and accordingly it has been stipulated that packing credit has necessarily to be liquidated by negotiation of export documents. If the exporter negotiates the documents through another bank, the bank which extended packing credit may not have any means to ensure that credit has been utilised for export purposes. Therefore, the bank to which account is restricted has to negotiate the documents and pass on the credit to the bank which had extended packing credit or take over the packing credit liability in its own books. As regards charges to be levied, the FEDAI rules, standardised the same. Copies of the FEDAI Rules are now available for sale to public. Any deviation from the FEDAI rules on the part of banks in respect of levy of charges could be taken up with FEDAI or Reserve Bank by the exporter.

4. In the absence of domestic letters of credit, the indirect exporters do not get the benefit otherwise available to the export sector.

RBI has already prescribed a procedure to enable indirect exporters to get such benefits vide RBI circular No. DBOD.ECC.BC.19/C.297 p-76 dated 9 February 1976. In terms of these instructions, pack-

ing credit can be shared between the manufacturer exporter and the actual holder of export order. The system provides for the sharing of quantum of packing credit or the period of credit which should not in the aggregate exceed the periods permitted for the export in questiion. It will be necessary for the banker of holder of export order to certify that supplies by the indirect exporter would contribute towards execution of export order holder for export of goods and no packing credit has been made available to export order holder. On supply of goods, the indirect exporter will get payment from the bank of the holder of export order under a L/C opened for the purpose. Whether this facility could further be used down the line will depend on the type of goods to be exported and the identifiability of the sub-suppliers. It has to be ensured that the bank finance is availed for the period required and restricted to the actual requirements at each stage. It has also to be ensured that no double financing is involved in the transaction and the credit at lower rate is not misdirected to finance other than export activity.

5. The exporters should be allowed to borrow from abroad, the choice of currency of financing being decided by the exporter by taking a view in the likely currency movement and interest rate differentials.

The exporters of commodities with high import intensity are already allowed to borrow from abroad to cover the import cost. EXIM Bank and also commercial banks authorised to deal in foreign exchange are allowed to extend foreign currency pre-shipment credit (FCPC) for the purpose vide AD (GP Series) Circular No. 23 dated 9 November 1991. In case the line of credit is arranged through EXIM Bank, the credit is available at a spread of 2% above the rate at which Exim borrow abroad. Since Exim's loan is disbursed through a commercial bank which takes exposure on the borrower, the latter gets 1½% while ½ goes to Exim. In case Exim is not involved and the line of credit is arranged by an authorised dealer, it is permited a spread of 1½%. The cost of overseas borrowing will depend on our country's credit rating. Apart from the above scheme, exporters are allowed by RBI to open broad based foreign currency accounts to meet their import requirements. They can also arrange for line of credit to fund such accounts. Payments for imports could also be made from their EEFC accounts.

As regards allowing the exporters to borrow abroad to meet the domestic cost of the exported goods, the question has to be considered within the overall monetary and credit policies. At present this is not permitted.

6. Bank finance should be made available against IPRS receivables.

As per interest rate directives of Reserve Bank of India, banks can extend export finance both at pre-shipment and post-shipment stages against incentives receivables from government at lower rate of interest for a maximum period of 90 days and the credit is to be covered by ECGC guarantee.

IPRS receivable will come under this category and accordingly the exporters can draw finance for a maximum of 90 days at lower rate of interest from the banking sector. It is expected that the disbursements of receivables be made within 90 days and Ministry of Commerce may ensure payments within the stipulated period.

7. It was complained that inordinate delay occurred in getting payment from the overseas banks through Nostro Account of the Indian exporter's bank even though the overseas buyer had remitted the amounts on due date to their banks.

As far as the export credit is concerned the date of credit to the Nostro Account is the relevant date on which the outstanding post-shipment credit is treated as repaid; thus no interest is charged from the date of credit to Nostro Account. It is, however, essential that the overseas buyer, while making the payment, gives correct and complete details of the transaction to his banker for the credit being passed on to the Nostro Account of the Indian Bank. In many cases, relevant details including the name of the Indian bank branch, the bill number, etc. are not furnished and in the absence of full details, it becomes difficult for the bank to identify the items. Recently, Indian banks have joined the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network which would enable quick transfer of funds from foreign centre to India. However, any individual case of delay may be taken up with FEDAI or RBI.

8. Bankers charge overdue interest on delayed payments at rates ranging from 20% to 25% even in the cases of delay beyond the control of the exporters. In such cases, the rate of interest should be brought down to reasonable level.

With effect from 9 October 1991 the post-shipment credit is available period-wise and slab-wise. Accordingly, higher rate of interest

is payable beyond the specified period only and not from date of advance as was the case earlier. As export credit is made available at a lower rate of interest compared to domestic lending rate, it would not be possible to extend credit at lower rate for indefinite period. As long as the credit is not repaid, the banks remain out of funds and they have to be compensated for cost of funds. It will not, therefore, be possible to reduce the interest rate merely because the delay was beyond exporter's control. The interest rate calculations are made by banks uniformly as per interest directive issued from time to time. Any export transaction is undertaken by the exporter taking the commercial risk involved and to cover this risk ECGC policy is available. In cases of non-repatriation of export proceeds beyond the control of exporter, if ECGC had met the claim the exporter is allowed to repay the outstanding post-shipment credit out of the rupee resources and payment received from ECGC. In such cases the interest rate is charged at "Export credit not otherwise specified" at minimum level vide IECD circular No. IECD.2/EFD/BC/819-POL-ECR-91/92 dated 9 July, 1991.

9. Under the "Running Account Facility" the firm export order or L/C is to be produced within a reasonable time. However, banks insist on production of the same within one month. The period may be extended to 3 months.

As per Reserve Bank's guidelines only in case of commodities covered by selective credit control regulations, the export order or L/C is to be produced within a period of one month. In other cases, it is left to the discretion of the banks taking into account the trade practice, the seasonality in the availability of the raw material and also the track record of the exporter. It is not considered necessary to specify 3 months period as suggested.

10. Permission should be granted to substitute one commodity for another commodity of the same group like extraction for purpose of export credit facilities.

As the export credit is made available at lower rate compared to normal lending rates, proper end use of the funds is to be monitored. It will not, therefore, be possible to substitute one contract with the contract of another commodity even though it may be in the same group. It will be difficult for the banking system to prevent the misdirection of cheaper funds for supplies to Domestic Tariff Area. However, delegation of powers to ADs already exist for substitution of the buyer in respect of the same commodity without prior permission of RBI.

11. Under the PSCFC Scheme, the exporter would like to bear the risk of exchange both the ways and realise export proceeds at rates prevailing on date of realisation of export bills.

    Under PSCFC Scheme, the interest rate applicable is dollar related and it is lower compared to rupee interest rate. Further PSCFC pre-supposes compulsary sale of the bills by the exporter. Thus, the rate of exchange is fixed and the credit is denominated in US Dollar. When the exporter enjoys the lower rate of interest, he cannot claim the benefit of exchange rate simultaneously. For this reason only the scheme is kept optional for the exporter. If he decides to take advantage of the expected depreciation of Rupee he can send the bills on collection basis but has to pay interest rate applicable for rupee credit.

12. Working capital loans at lower rate of interest as available to merchandise exporters should also be made available to hotels and tourism related industries. Similarly, Duty Drawback Schemes should be made available to these industries.

In case of physical exports, export finance at lower rate of interest both at pre-shipment and post-shipment stages is made available to enable the exporters to compete in the international market and earn foreign exchange for the country. Further, the Working Capital finance is made available on the basis of actual requirements for procuring raw material, processing and exporting of goods. The bank finance is not based on past performance. On the other hand, in case of Hotel and Tourism related industries, the competition is restricted within India and the tourists arrival will inter alia depend on the infrastructure available in the country. Further, banking system will not be in a position to widen the coverage of concessional credit and suffer revenue loss. Even for certain deemed exports concessionary finance is not made available.

13. In respect of export of value added leather goods, the foreign buyer is prepared to supply raw material under back to back L/C and in return L/C will be adjusted after payment of value addition. By this method, the country would be able to conserve foreign exchange for 60 to 90 days and the exporters would be able to avoid the risk of rejection of raw material used in the export. However, the bankers treated these two transactions

separately and accordingly the market rate was applied for imported value of goods and 40-60 rate for the exported value. The 40-60 rate should be applied only for the value added portion after netting the amounts.

The LERMS provides for application of market rates for all import transactions and 40-60 rate for the current account receipts. The rationale of the policy is that the foreign exchange available at official rate would be used to finance the import of specified priority list of goods and services which are essential for the development of the economy. So long as partial convertibility exists, this has to be followed. Accordingly, it will not be possible to allow 40-60 rate for the value added portion only. The exporter has other recourses to avoid the application of market rate. He can import under guarantee of export, free of charge and realize any value added portion or he can import under advanced licence system.

14. The trading houses who hold dollar accounts should be given a general permission for merchant trading which would bring added foreign exchange and would also boost country's exports. The present practice of getting permission from RBI on case-to-case basis may be done away with.

The merchandising trade transactions are covered by Chapter 13 of the Exchange Control Manual. At present these transactions are not covered under payments approved under operations of EEFC accounts. RBI would consider giving general permission for such activity on the basis of track record of the merchant trader in this activity.

15. Trading houses who are otherwise eligible for establishing office abroad may be allowed to have off-shore trading company in India so that foreign exchange is not spent on establishment of offices abroad.

The suggestion involves creation of off-shore trading and it would amount to non-application of domestic tax laws etc. Further, foreign currency transacted with an off-shore trading office would amount to payment in foreign currencies by one resident to another which is not permitted at present. Therefore, the implications of such an establishment has to be studied by Ministry of Finance. The suggestion is under consideration of Exchange Control Department.

(Action ECD)

16. The Jewellery exporters in Rajasthan are enjoying the concession of receiving payments directly by way of bank drafts from their customers upto US $ 25,000. The same type of facility may be extended to exporters with good track record and the present limits of US $ 7,500 for direct receipts of export proceeds may be increased to $ 50,000.

In terms of paragraph 11A10 of Exchange Control Manual powers have been delegated to ADs to regularise transactions where payments are received by exporters directly in the form of foreign currency instruments without any limit. Powers have also been given to ADs to despatch documents to overseas buyers direct (i.e., without routing them through their overseas correspondents as required under the Exchange Control regulations) where the full value of export has been received in advance or an irrevocable L/C has been established. In the case of exporters of jewellery with good track record permission is granted on application for despatch of documents direct to consignees in respect of consignments upto US $ 25,000 in value irrespective of whether advance payment L/C was received or not.

17. RBI should permit overseas customers to open a "Running Account" (presumed to be current account) in Rupees with any of the authorised dealers whereby payments for the export bill are met on presentation. Nominal interest paid to such deposits could be credited to this account thereby avoiding the question of repatriation of interest income on "running account" balance.

Such requests even for foreign currency accounts in India will be considered by RBI, ECD on merits but no interest will be allowed to be paid on balances in such accounts.

18. At present 15% of export proceeds are credited in EEFC Account and the interest paid on such accounts is only 4%. Further the balance in the account is not allowed to be utilised to draw rupee loans. As the cash limit attracts interest at 21.75% p.a. the balance in the EEFC Account should be considered for cash credit limit while calculating the interest.

The EEFC Account is a facility given to the exporters to meet their foreign exchange expenditure for the approved purposes. As the amount is kept in dollar, the interest is paid at the rate applicable for US Dollar and it cannot be equated with the rupee interest rate on cash cre-

dit. If the exporter wants to liquidate his rupee liability which attracts 21.75% interest he could do so by selling the dollars in the EEFC Account to an authorised dealer. The exporter has to choose between holding of foreign exchange or liquidation of rupee liability at a higher rate of interest. It is not logical to ask for benefit both in interest rate and exchange rate. Incidentally, it may be clarified that no rupee loan could be granted against the balances held in EEFC Accounts and the relative post-shipment credit account should be repaid by the exporter.

19. The release of foreign exchange for payment of commission is done at market rate. To make the export competitive, it should be allowed at official rate.

Official rate of exchange can be applied only for transactions approved by the Government in terms of the orders issued under Section 40 of the Reserve Bank of India Act. Its scope cannot be widened to cover all payments for obvious reasons as explained in paragraph 13 above. Accordingly, it is not possible to agree to the above suggestion.

20. Exporters should be allowed to have EEFC Account in all currencies instead of confining to one currency, namely, US Dollar.

In terms of A.D. (MA Series) Circular No 13 dated 12 March 1992, expoters are permitted to hold EEFC Account in all permitted currencies.

21. Authorised Dealers are allowed to remit commission upto 12.5% on invoice value without RBI's permission. Please clarify whether it is on CIF or FOB value.

In the A.D. (MA series) circular No 12 dated 5 March 1992, it has been stipulated as 12.5% of the invoice value. If the invoice is for CIF value, commission will be calculated on CIF value.

22. In terms of AD circular No. 43, the travellers using International Credit Card had to get their passport endorsed for exchange allocated under ICC. In certain situations the foreign exchange used under ICC is more than what is originally endorsed on passport and ADs are not willing to remit higher amounts. The users of ICC should have flexibility to exceed the amounts endorsed so long as the total amount is within permitted per diem allowance plus entertainment allowance.

The matter has already been reviewed by Exchange Control Department and authorised dealers have been suitably advised vide AD (MA Series) Circular No. 43 dated 30 June 1992 giving flexibility in using ICC.

23. There should be a provision in GR form to give multiple bank names for negotiation.

At present though the exporter has to indicate the name of the negotiating bank in the GR Form, no objection is raised even if the documents are negotiated through some other bank. FIEO has submitted a paper for abolition of GRI Form to ECD which is under consideration.

(Action ECD)

24. For marketing in countries like USA monogram licence from institutions like API is necessary and an annual licence fee after initial payment is also involved. If inspection facilities are insisted exporters have to incur the above expense also. LERMS do not specifically provide for such payments. Similarly payments for ISO 9000 are also not covered under LERMS.

Suitable instructions may be issued.

Exchange Control Regulations cover major items of current account transactions and in case, any item is not specifically covered the matter may be referred to ECD, RBI for consideration with full particulars of the type of the transaction.

25. Under LERMS, exporters to ACU countries are permitted to have 15% retention facilities and necessary circulars have not been issued so far.

In terms of paragraph 3 (c) of AD (MA Series) Circular No. 26 dated 3 April 1992, facility of EEFC Account is available in respect of exports for ACU through ACU mechanism; in such cases exporters have to buy exchange at market rate for credit to EEFC Account. Government of India have since announced a scheme of issue of special import licences to certain categories of exporters including those who have made exports to ACU countries against payments through ACU mechanism on or after 1 March 1992.

26. 100% convertibility should be given for export proceeds of Domestic Tariff Area units with 100% export obligation and those who have achieved more than 20% value addition.

Under LERMS, it is necessary that the units are classified as 100% EOUs or one located in EPZ/FTZ to avail of 100% convertibility for export proceeds. This facility cannot be given to all export units in DTA even if they do 100% export. The rationale for LERMS has already been explained in item No. 13 above.

27. REP licences should be made available in respect of those exports where forward cover was taken prior to announcement of convertibility but exports were made after the announcement.

It has been ensured that the exporters would either get the benefit of REP licences or rates as per LERMS and detailed guidelines have been issued in terms of paragraph 1(ii) of AD (MA Series) Circular No. 28 dated 29 April 1992.

28. Cash discounting are given for quick payments to foreign buyers after the shipment. In such cases the authorised dealers may be empowered to dispose of the GR1 Forms with necessary remarks for the lesser inward receipts.

In terms of paragraph 11C 24 powers have already been delegated to ADs to allow rebate on pre-payment of usance bills.

29. It has been pointed out that the amended sub-section of para 24C3 of Exchange Control Manual prevented the banks from accepting NRI's personal guarantee for Indian companies unless the NRI has fixed assets in his personal capacity equal to the total advances made by the banks in addition to the stocks and fixed assets of the company. Alternatively the guarantee is to be provided through an international bank outside India. It has been suggested that all export advances must be exempted from the purview of the above Section.

The issue has since been examined by the Exchange Control Department and it has been decided to delete the condition (d) in para 24C3(i) of the Exchange Control Manual. Accordingly, it will not be necessary for the guarantor to have assets in India or to provide guarantee through an international bank outside India in favour of the Authorised Dealers in respect of loans and overdrafts to persons, firms and companies in India against the guarantee of persons, firms and companies (including banks) outside India. The other terms and conditions will remain.

30. ECGC charged higher rates in respect of bills not covered by L/C and ECGC collected commission of full amount including the portion covered by L/C. Further, ECGC charged Rs. 10,000/- per container.

It was clarified by ECGC that if the exporter did not want to cover the L/C part of the bill, no fee would be charged. It was also clarified that from the exporter's point of view, ECGC cover was necessary from the angle of country risk as L/C did not cover this aspect. The discretion is, however, left to the exporter. As regards non L/C portion, the premium would depend on the country risk and it was stated that the premium charged by ECGC was one of the lowest in the world. It was also clarified that ECGC premium was not on the basis of number of container/s and it depended only on the value of the goods contained in the container.

31. The funds transferred between one branch to another take a day or two because of cheque clearance formalities. RBI should direct branches to computerise and there should be a central clearance system.

The computerisation of banking industry is being executed on the basis of Dr. Rangarajan Committee Report. Already National Clearing Cells have been established in 4 metropolitan cities and also these have been inter linked for quick clearance of cheques. Reserve Bank of India has also fixed time frame for clearance of cheques between cities. The country being vast, it is not possible to avoid a certain minimum time lag for clearance of cheques. As regards foreign exchange transactions relating to exports, FEDAI have stipulated in their circular dated 13 April 1992 a time schedule for completion of various types of transactions. In cases of delay and if the delay is on account of the failure on the part of the bank concerned, compensation will be payable to the exporter for the delayed period at the rate applicable for export credit.

32. It was stated that the bank charges in India were very high.

The bank charges for domestic operations are fixed by banks themselves (except that public sector banks have a uniform schedule of minimum service charges in respect of some main items of service) and charges relating to foreign exchange transactions are fixed by FEDAI in consultation with Reserve Bank of India. These charges are required to meet the operational cost in handling the various types of transactions by banking sector. It may be stated that the charges levied by banking

industry in India are one of the lowest in the world. There is, therefore, no scope for any reduction in the charges.

33. In case of negotiations of documents if restricted under L/C for negotiation to any particular bank who are not exporter's bank, the documents are forwarded to the negotiating bank through exporters' bankers. In such cases, the negotiating bank avoids discounting of the bills on flimsy grounds and sends the documents on collection basis only.

For negotiation of documents under L/C, there is no distinction between minor or major irregularity. In case the documents are not strictly in conformity with terms of L/C, the banks will not take the risk of negotiating the documents. However, banks at their discretion can obtain an idemnity from the exporter and negotiate the documents.

34. ECGC cover both for political and commercial risk should be made available for the exporters in respect of Ukraine and erstwhile USSR.

Following the break-up of the erstwhile USSR, ECGC has to reassess the political and commercial risks involved in different breakway countries. The matter is under consideration of ECGC and exporters will be advised as soon as a decision is taken in the matter.

35. Most of the Government Departments require 100% performance bond having an automatic extension clause which in terms of banking means an open ended guarantee. In terms of Rule No. 6 of FEDAI bankers are restricted to issue such bonds. Even when they issue such bonds, they do it on 100% cash margin. The above restrictions should be removed.

It has been clarified by FEDAI that for obvious reasons, it would not be in the interest of the Authorised Dealers to undertake an exposure for an unlimited period or issue guarantees which provide for automatic revalidation. Besides, it will also not be cost effective to the exporters who will be required to pay annual guarantee commission for an unlimited period.

Nevertheless, any specific recommendation from their member bank for a relaxation in their Rule will be placed before their Managing Committee if the bank concerned is in a position to undertake such a risk and waive the margin requirements.

CHAPTER 8

Note of dissent by Shri M.V. Raghavachari on certain Recommendations of the Committee on Structure of Export Credit

Recommendations

Refinance from Reserve Bank of India

It was pointed out that under the existing policy of Reserve Bank of India, the refinance in respect of export credit was available under the two-tier formula based on the performance of banks in 1988-89 and 1989-90. The formula adopted by the Reserve Bank of India was considered to be cumbersome and it did not benefit all the banks uniformly. Instead of such a a two-tier formula it would be worthwhile to consider to have a single percentage of export credit outstanding which would be beneficial to all banks. To encourage the banks to give export credit without any reservation it would also be better if Reserve Bank gave 100% refinance to all banks uniformly, and such a step would benefit the country to overcome the balance of payment position. (Para 2.4)

Comment

At present, the scheduled commercial banks are provided two types of export credit refinance facilities, namely :

i) Under the rupee refinance facility, scheduled commercial banks are provided export credit refinance to the extent of 60 per cent of the increase in outstanding export credit over the monthly average level of 1988-89 upto the monthly average level of 1989-90 plus 110 per cent of the increase over the monthly average level of outstanding export credit in 1989-90 at a rate of interest of 11.0 per cent per annum.

ii) Under the refinance scheme for Post-shipment Export Credit Denominated in US Dollars (PSCFC), banks are eligible for export credit refinance limits equivalent to 120 per cent of such credit provided by them and the rate of interest on such refinance is 5.5 per cent per annum.

As a result of the very liberal refinance facility with accelerators export credit extended by scheduled commercial banks increased from Rs. 10,695 crore (8.5 per cent of the net bank credit) as on March 20, 1992 to Rs. 14,035 crore (9.5 per cent of net bank credit) as on February 5, 1993. Consequently, export credit refinance limits of banks increased sharply from Rs. 5,594 crore as on March 20, 1992, to a historically high level of Rs. 9,345 crore as on February 5, 1993. During this period, export credit refinance limits as a proportion of outstanding export credit increased from 52.3 per cent to 66.6 per cent. The scheme of Post-Shipment Export Credit Denominated in US Dollars has been found attractive by banks as well as exporters. The refinance limits of banks under the Post-Shipment Export Credit Denominated in US Dollars have increased sharply from Rs. 30 crore as on March 20, 1992 to Rs. 4,063 crore as on February 5, 1993. Despite the macro-policy constraints, the Reserve Bank of India has been extending massive support to banks for promoting exports. World over such liberal export credit refinance provided by a central bank through created money was an exception rather than the rule. Considering the overhang of liquidity in the system, it is not possible to provide 100 per cent refinance to banks on outstnading export credit. Beyond a point, promotion of exports through created money is counter-productive.

Recommendation

Taking into account all the aspects relating to the cost of credit to the exporters, the relative competitiveness of the exports on account of interest cost, the competitive interest rate structure in the neighbouring countries and ways and means to ensure free flow of credit to the export sector, the exporters were generally of the view that the recent doubling of interest rate along with withdrawal of export incentives such as Cash Compensatory Support (CCS) etc., had affected the international competitiveness of Indian exports adversely. They also felt that the other supportive measures such as LERMS, advance licences and exemption of tax on export profit, etc., as incentives were not adequate as the exports were also not doing well at present. Commerce Ministry at the highest level was also of the strong view that export finance interest rate should be brought down immediately to a single digit figure, the outer level in the present circumstances could at the most be 10%. It was also felt by Commerce Ministry that the exporters deserved all sympathetic consideration and reduction in interest rate on export finance

would be an important component in their export efforts. (Paragraph 2.7).

Comment:

The interest rates under the present structure of rates on export credit are lower than those charged on other commercial advances by scheduled commercial banks. Pre-shipment Export Credit upto 180 days as also the Post-Shipment Export Credit upto 90 days under the export credit denominated in Indian Rupees is provided at an interest rate of 14 per cent which is 4 percentage points lower than the interest rate of 18.0 per cent (minimum) charged for credit limits over Rs. 2 lakh. Again, under the Post-Shipment Export Credit Denominated in US dollars, exporters are provided export credit at an interest rate of 6.5 per cent per annum upto six months from the date of shipment. Regarding the need to facilitate an environment for promotion of exports, some relief in terms of lower interest rates on export credit were considered apposite in the context of the reduction in lending rate on credit limits over Rs. 2 lakh. Accordingly, effective October, 9, 1992, the interest rates on export credit (rupee) provided by scheduled commercial banks were reduced by one percentage point across-the-board. While exporters do need export credit at a reasonable rate, what is vital to export operation is timely and adequate credit. Unattractive rates of interest on export credit will lead to banks considering lending to exporters as an unprofitable business. Any significant downward adjustment of interest rates on export credit would be difficult without the revival of the interest subsidy; otherwise, profitability of banks would be seriously eroded and banks will be reluctant to finance exports at unremunerative rates of interest. The suggestion of the Committee on the Structure of Export Credit is that when there is a policy decision to lower the minimum lending rate for credit limits over Rs. 2 lakh, there should be more than a corresponding reduction of export credit interest rate. The suggestion is not feasible proposition. As stated above export credit is already provided at concessional rates of interest. It is simply not possible for commercial banks to provide export credit at single digit rate of interest without a serious erosion in their profitability. At the current levels of export credit every percentage point reduction in interest rate on export credit would lead to a loss of income to the extent of Rs. 140 crore to banks. Significant erosion of interest income of banks would adversely affect banks' efforts to achieve capital adequacy norms and adequate provisioning for bad and doubtful debts. Also on a liberal assumption that the interest cost accounts for about 10 per cent of the cost of production

of export oriented industries, one percentage point reduction in interest rates on export credit will reduce the cost of production by 0.1 per cent only.

Recommendation:

The Chairman and Members tried to reconcile the above diverse views after examining carefully all aspects of the issues involved including the monetary implications. It was decided that the issue might be left to the Reserve Bank taking into account the above views while announcing the busy season credit policies. The Committee emphasised that if there was going to be a policy decision to lower the minimum lending rate for commercial loan, it should be ensured that there was more than a corresponding reduction of export credit interest rate keeping the yield to the banks at the existing level by lowering the rate of interest on refinance. (Para 3.18).

Comment:

The quantum of refinance and the rate of interest on export credit refinance are part of monetary policy instruments. These are to be modulated depending on the emerging monetary and credit development. The interest rates on export credit refinance cannot simply be lowered to shore-up yield of the banks. Such a measure would lead to loss of monetary control. In view of this, there cannot be any prior commitment by Reserve Bank of India on the quantum of export credit refinance as also on the rate of interest on such refinance.

Recommendaton:

It was noted by the Committee that on the basis of the recommendations of the Narasimham Committee on the 'Financial System' the Statutory Liquidity Ratio (SLR) had to be brought down to 25% of the net demand and time liabilities of the banking system in a phased manner. The Narasimham Committee had also suggested that Reserve Bank might consider a progressive reduction in the Cash Reserve Ratio (CRR) from its high level. Taking into account the need to meet the increasing demand of the export sector to achieve the current year's target of Rs.

58,000 crores, Reserve Bank might consider directing the banks to earmark to the extent necessary, the funds so released from SLR and CRR specifically to export sector. (Para 4.7).

Comment:

It is simply not possible to direct commercial banks to earmark resources released due to reductions in CRR and SLR specifically for extending export credit. Already banks were advised to endeavour to reach by June 1993 a level of export credit equivalent to 10 per cent of each bank's net bank credit. There are equally competing demands from priority sectors like agriculture and SSI sectors for credit. Although, the Narasimham Committee recommended that the directed credit should be reduced as a special case, further enhancement of directed credit for export sector would seriously affect the viability of banks.

Recommendation:

In the meantime the possibility of utilising the foreign exchange resources of the commercial banks for the purpose of discounting the export bills could be explored. It is recommended that Reserve Bank may consider the above suggestion in depth and allow the banks to rediscount the export bills at the opportune time. For this purpose, it may also initiate action to develop a domestic market for discounting of export bills.

This will be necessary in the event of introduction of full convertibility of current account transactions. (Para 5.8).

Comment:

In our view with a liberal export credit refinance facility, there is little need for going in for rediscounting of export bills abroad. Export bills rediscounting facility may be used merely to circumvent credit policy rather than providing genuine assistance for export promotion. The benefits of the scheme would probably accrue to the banks and it is not clear whether the exporters would get benefit of the lower interest rates abroad (i.e., banks would be free to decide whether or not to rediscount bills abroad). However, if exporters are permitted to rediscount bills directly, the integral link between the repatriation of the export proceeds and the liquidation of the export credit would be broken.

Rediscounting of export bills abroad would lead to monetary expansion. Even when the country was experiencing a severe balance of payments problem during 1991, banks had not been permitted to rediscount bills abroad. At present, there is an overhang of liquidity in the system. During the current financial year so far, the pace of overall monetary expansion is very strong. During the period March 31, 1992 to February 5, 1993, M3 expanded by 13.3 per cent as compared with the targetted expansion of 10.4 per cent for the year as a whole. The year-on-year increase in M3 upto February 5, 1993 was as high as 14.8 per cent which is way above the targetted expansion for the full financial year 1992-93. At a time when very liberal export credit refinance facilities are provided to banks, there is no case for permitting rediscounting of bills abroad. Allowing banks to rediscount export bills abroad would make the monetary management extremely difficult. In this context, it may be stated that discretion to rediscount export bills abroad will cause fluctuations in the foreign exchange reserves in a counter-productive way. When there is little or no pressure on the rupee exchange rate, exporters will rediscount bills and if there is a pressure on the rupee exchange rate, exporters will hold back receipts; thus reserves will rise when there is little pressure on the reserves and fall further when reserves are on the decline. Furthermore, the cost of rediscounting cannot be less than what we earn on our reserves. These factors are to be reckoned with while allowing banks to rediscount export bills abroad.

Date: February 25, 1993

Sd/-
(M.V. Raghavachari)

ANNEXURE - I
(Chapter 2/Para 3(iii))

EXPORT ASSISTANCE MEASURES AVAILABLE IN CERTAIN COUNTRIES - 1991

Sl. No.	Name of Country	Tax Exemption/ Rebate	Interest Rate on Pre-Shipment	Export Credit Post-Shipment	Credit & Finance	Duty Drawback	Export Subsidy	Import Duty Concessions	Remarks
1.	Malaysia	50% of Exports tax free 5% flat deduction fob value of Agri-culture exports	4%	4%	80% refinance on pre-shipment and 100% re-finance on post-shipment refundable	Import Duty Excise Duty and Sales Tax all elements	N.A.	N.A.	
2.	Taiwan	N.A.	7.375%	N.A.	All imports financed @8.375% for 3 years and @ 8.625% above 3 years. Medium term finan-cing for Capital Goods exports @ 6.375% for under 3 years and @6.625% above 3 years 7% interest rate on US Dollar loan	Duty Drawback refundable	N.A.	N.A.	

Sl. No.	Name of Country	Tax Exemption/ Rebate	Interest Rate on Pre-Shipment	Export Credit Post-Shipment	Credit & Finance	Duty Drawback	Export Subsidy	Import Duty Concessions	Remarks
3.	Turkey	Exemption from tax and other charges on official documentation	16% deduction in Corporate tax for export manufacturers and 4% for agent.	40% lower than domestic commercial rate.	N.A.	N.A.	Cash Subsidy given for 89 products, intermediate	Imports of Raw materials. Machinery & goods for export production are exempt from import duties & other charges.	
4.	Korea	50% exemption of net foreign exchange earnings.	N.A.	N.A.	Export Promotion Loan and special depreciation allowances are given.	Duty Drawback Refundable.	N.A.	N.A.	To strengthen international competitiveness, Govt. is extending more loans to mfg. units. Small and medium sized industries are taken special care by way of giving them adequate financial and taxation support.
5.	Japan	70% of income from Patent Sales is exempt from tax. Besides, Special tax exemption on export of technology patents, Copy rights and consultation fees are given.	7.5%	N.A.	N.A.	Duty Drawback refundable to cover indirect taxes as well	N.A.	N.A.	

Sl. No.	Name of Country	Tax Exemption/ Rebate	Interest Rate on Pre-Shipment	Export Credit Post-Shipment	Credit & Finance	Duty Drawback	Export Subsidy	Import Duty Concessions	Remarks
6.	Germany	N.A.	7.2% to 8% upto 2 years. 10.25% and 9.25% upto 5 years.	N.A.	N.A.	Duty Drawback Refundable	N.A.	N.A.	
7.	France	N.A.	10.25%	N.A.	Revolving credits are available to exporters from the stage of order to shipment.	Duty Drawback Refundable (incl VAT and imported components)	N.A.	N.A.	
8.	Venezuela	10% exemption on export bond from tax payment	1% below the market rate	1% below the market rate	Finance in dollars are provided at international rate	Duty Drawback Refundable (5% of f.o.b. value of exports)	Credit from export Financing Fund (Finexpo) is extended to products with value-added of atleast 30%. This is also extended to suppliers to exporters. Exemption to the criteria is also considered. 50% of credit at preferential interest rate is given. Finance covers very vide areas e.g. post-shipment also feasibility studies etc. Coffee & Cocoa enjoy special export subsidies.	Duty Free import for all elements going into export Production	

Sl. No.	Name of Country	Tax Exemption/ Rebate	Interest Rate on Pre-Shipment	Export Credit Post-Shipment	Credit & Finance	Duty Drawback	Export Subsidy	Import Duty Concessions	Remarks
9.	Canada	Exports are fully exempt from tax i.e. "zero rated" tax on exports.	8.25%	8.25%	N.A.	N.A.	N.A.	N.A.	
10.	Pakistan	6% to 25% rebate on regular income tax and super tax	11.03%	11.03%	Loans @ 6% are given for export of locally manufactured machinery. Ceiling under Export Refinance Scheme has been increased by 75% of increase in exports.	Certain specified export-oriented industries are eligible to import machinery and spare parts without payment of duty, sales tax, surcharge and import licence fee.	N.A.	N.A.	
11.	U.K.	N.A.	10.5%	N.A.	Export Finance is available against letter of Hypothecation of drafts and shipping documents: trade bills where by U.K. manufacturing bills of exchange against specific exports or on a revolving basis.	VAT is rebated on exports.	Grants are available to enable company executives to travel to trade fairs and to explore markets. Financial support is available for precontractual expenses.	N.A.	Besides interest subsidy is given when it exceeds OECD mimimum rates.

Sl. No.	Name of Country	Tax Exemption/ Rebate	Interest Rate on Pre-Shipment	Export Credit Post-Shipment	Credit & Finance	Duty Drawback	Export Subsidy	Import Duty Concessions	Remarks
					Medium and long term credits are available against 100% guarantee by OCGD.				
12.	Mexico	Under the renewed Pitex Programme exporters are given the same benefits as exporters with respect to taxes, duties and financing tax breaks for export-related expenses, cash refunds of the value added tax and access to government resources for both peso and hard currency financing.	US Prime rate plus 0.5% to 3.5% percentage point	US Prime rate plus 0.5% to 3.5% percentage point	Export Financing upto 85% to 100% of f.o.b. price. Besides, per export and investment finances for exporters are also available.	Duty Drawback refundable	N.A.	No import tariff	100% of export earnings are allowed to exporters and suppliers to exporters to pre-pay for imports.
13.	Denmark	N.A.	11.5% + 1.5%	11.5% + 1.5%	Export financing on OECD terms. Bridging Credit available at market rate.	Duty Drawback Refundable for non-EFTA and EEC trade. VAT is not levied for exports.	Export Grants from 40% to 60% are given by their EPC on export costs for consultation or tenders.	N.A.	Group co-operatives for exports are preferred.

Sl. No.	Name of Country	Tax Exemption/ Rebate	Interest Rate on Pre-Shipment	Export Credit Post-Shipment	Credit & Finance	Duty Drawback	Export Subsidy	Import Duty Concessions	Remarks
					The Industrialisation Fund for Developing Countries (IFU) spurs Danish exports and increases foreign investment. The IFU offers loans to enterprises in Denmark for carrying out feasibility studies of joint ventures in under developed countries. Loans of upto 25% of a JV's capital and participate in equity upto 30% of total capital.				
14.	Austria	N.A.	8.125%	N.A.	Individual Credit ceiling is 10% of export turnover, @ 8% plus 0.5% as guarantee. Finance to aid marketing is offered @ 4.5%.	Duty Drawback is refundable. VAT is not levied.	N.A.	N.A.	Revolving fund for small and medium export company @8.5% Export Debt claims on foreign customers recorded in the company balance sheet at 85% of the nominal value.

Sl. No.	Name of Country	Tax Exemption/ Rebate	Interest Rate on Pre-Shipment	Export Credit Post-Shipment	Credit & Finance	Duty Drawback	Export Subsidy	Import Duty Concessions	Remarks
15.	Italy	N.A.	N.A.	N.A.	Short-term export credit is readily available at lower rates than ordinary overdrafts.	Refundable all indirect taxes. Customs duties etc.	Interest rebate is offered equal to the difference between the market rate for raising foreign finance and the interest rate charged by the exporter.	N.A.	All export documents are exempt from stamp duty.
16.	Belgium	N.A.	International rates	International rates	Refinane@ 13.08% is available.	Import duties and VAT are refundable	External Trade Fund provides grants/subsidies for export promotion campaigns and participation in trade fairs.	N.A.	
17.	Brazil	N.A.	International rates	N.A.	Export Credit and finance are available	Duty Drawback and VAT are refundable.	N.A.	N.A.	

1. N.A.: Not available
2. Data relate to the period 1990-91

(Source: FIEO, Bombay).

Annexure - II
(Chapter 2/Para 5)

GEM & JEWELLERY EXPORT PROMOTION COUNCIL

COST FOR EXPORT FINANCE:

OUR EXPORT-IMPORT FIGURES OF DIAMONDS FOR LAST THREE YEARS:

(Rs. in Crores)

Year	Exports	Imports	Total Turnover	Finance Provided by Bank	Percentage of Finance to Total Turnover
1989-90	$ 2986.29 Rs. 4971.93	$ 2448.89 Rs. 4077.21	$ 5435.18 Rs. 9049.14	$ 1021 Rs. 1800	18.77% 19.89%
1990-91	$ 2641.01 Rs. 4738.71	$ 1975.19 Rs. 3544.05	$ 4616.20 Rs. 8282.76	$ 895 Rs. 1600	19.39% 19.31%
1991-92	$ 2499.85 Rs. 6162.64	$ 1897.42 Rs. 4677.53	$ 4397.27 Rs. 10847.17	$ 450 Rs. 1150	10.23% 10.60%

PARAMETERS FOR COST OF FINANCE:

Particulars	1989-90	1990-91	1991-92	Circulation on reduced rate of interest
1. Bank interest rate (Appx.)	8%	8%	16%	10%
2. Average Exchange Rate	5.70	5.70	3.35	3.25
3. Profit in exchange rate on every export realisation @ 0.03 cent for $ 1 appx, as per (2) above.	0.60%	0.60%	1%	1%
4. Bank charges on every import/export transaction-telex, certificates, corresponding charges ECGC Premium	0.35%	0.35%	0.35%	0.35%
COST OF FINANCE:				
1. Bank's interest earning as per finance provided as above	Rs. 144.00	Rs. 128.00	Rs. 184.00	Rs. 115.00
2. Profit in exchange rate on Export transaction as per point (3) in above parameter	Rs. 29.83 (0.60% on 4972)	Rs. 28.42 (0.60% on4738)	Rs. 62.00 (1% on 6200)	Rs. 62.00 (1% on 6200)
3. Bank charges and expenses @0.35% on total turnover	Rs. 31.67 (0.35% on 9049)	Rs. 28.98 (0.35% on 8282)	Rs. 43.38 (0.35% on 10847)	Rs. 43.38 (0.35% on 10847)
Total Cost	205.50	185.40	298.38	220.38
4. Percentage of cost of Bank Finance to the exporter.	11.42%	11.58%	25.16%	19.16%

1. The table shows an advance of Rs. 1150 crores were lend to the diamond industry on which Banks have netted Rs. 298 crores by way of interest, exchange profit and other charges. Thus, it can be seen that export finance is more lucrative to the banks than financing other indigenous industries.

2. It can also be seen that banks have earned Rs. 298 crores, which itself accounts for 4.81% of our total exports i.e., Rs. 6,200/- (Excluding Insurance, Freight, other overheads). Since the sector has to face tremendous competition from other countries the above rate is very high taking into consideration the cheap labour and finance available in competitor countries abroad.

3. There is no reason to believe that banks should not be willing to advance exporters, if interest rate is lowered. The 4th column clearly shows that banks will still stand to gain @ 19% returns of finance given to the industry if interest rate is lowered to 10%.

4. On the whole there is a reduction of 9.29% in terms of finance provided by the bank to total turnover in the year 1991-92 as compared to 1989-90.

5. From the above working it could also be seen that in 1991-92 there is a reduction of 56% in Bank finance availed as compared to that availed in 1989-90.

6. Likewise there is also reduction in export turnover of 19.45% in terms of US$ in the year 1991-92 as compared to in the year 1989-90.

7. 75% of the advance granted is also covered under E.C.G.C. scheme for which the banks are secured to that extent.

8. In order to withstand the competition and sell our diamonds in hard currency, there should be reduction in the cost of Bank Finance available.

ANNEXURE - III
(Chapter 3/Para 12)

TABLE - A

Absolute Cost of Funds

A.	Cost of Funds	9.5%	(7.5%)
B.	Establishment Cost	3.5%	(3.0%)
C.	Cost involved for maintaining cash reserves of 5%	0.75%	(0.6%)
D.	Minimum Margin	1.0%	(1.0%)
		14.75%	(12.1%)

(Figures in bracket as per Verghese Committee's Report.)

TABLE - B

Cost of loanable funds (per Rs. 100/- of deposit funds)

I.	Total cost of funds including Establishment Cost		Cost 13.00	(Percent) (10.75)
II.	Earning on pre-emptions			
	a) Minimum Statutory CRR (3%) Rs. 3	Nil -		
	b) Cash in hand (2%) Rs. 2	Nil -		
	c) CRR in excess of statutory Minimum (16-3%) Rs. 13 at 8.5%		Rs. 1.11	(1.05)
	d) SLR (37.5%) i.e. Rs. 37.5 less Rs. 2 (cash in hand) as average yield 11.5% p.a.	Rs. 35.5	Rs. 4.08	(2.80)
			Rs. 5.19	
III	Loss of interest due to lower earning on pre-empted funds (I-II)		7.81	(6.90)
IV	Minimum rate to be charged on balance Rs. 46.50 to enable funds to break even		16.8%	(13.8)

(Figures in brackets as per Verghese Committee Report.

ANNEXURE - IV
(Chapter 4/Para 10)

Ref. DBOD No. BC89/13-07-01/91 dated February 29, 1992

Interest rate structure for advances of scheduled commercial banks effect from 2nd March 1992 (Excluding Interest Tax)

		Rate of Interest (% per annum)
1.	Size of Limit xxx	xxx
2.	Lending rate for commodities coming within the purview of Selective Credit Control (SCC) xxx	
3.	Export Credit	
	(1) **Pre-shipment credit**	
	(i) a) Upto 180 days	15.0
	b) Beyond 180 days and upto 270 days (with the prior approval of the Reserve Bank of India)	17.0
	(ii) Against incentives receivable from Government covered by ECGC Guarantee (upto 90 days)	15.0
	(2) **Post-shipment credit**	
	(i) Demand bills for transit period (as specified by FEDAI)	15.0
	(ii) **Usance bills** (For total period comprising usance period of export bills, transit period, as specified by FEDAI, and grace period, wherever applicable)	
	a) upto 90 days	15.0
	b) Beyond 90 days and upto six months from the date of shipment	19.0
	(iii) Beyond six months from date of shipment	24.0
	(iv) Against incentives receivable from Government covered by ECGC Guarantee (upto 90 days)	15.0
	(v) Against undrawn balance (upto 90 days)	15.0
	(vi) Against retention money (for supplies portion only) payable within one year from date of shipment (upto 90 days)	15.0
	(3) Deferred Credit	
	Deferred Credit for the period beyond 180 days	15.0
	(4) Export Credit not otherwise specified	19.0 (minimum)
	(5) Post-shipment Export Credit Denominated in US dollars	
	(i) Demand bills for transit period (as specified by FEDAI)	6.5
	(ii) Usance bills (for total period, comprising usance period of export bills, transit period, as specified by FEDAI, and grace period, wherever applicable) Upto six months from date of shipment	6.5

ANNEXURE - V
(Chapter 6/Para 5)

Working of MPBF - Tandon/Chore Committee

Current Liabilities		Current Assets @	
Creditors for purchase	100	Raw Materials	100
Other Current Liabilities	50	Stocks in process	20
	150	Finished goods	90
Bank borrowings, including bills discounted with Bankers	200	Receivables, including bills discounted with bankers*	150
		Other current assets	10
	350		370

*inclusive of export receivables 100

@ As per norms or past practices, whichever is lower, in relation to projected production for the next year.

1st Method		2nd Method		2nd Method with Relaxation	
Total Current Assets	370	Total Current Assets	370	Total Current Assets	370
Less: Current Liabilities other than bank borrowings	150	25% of above from Long Term Sources	92	25% of 270 (370-100) from Long Term Sources	68
			278		302
Working Capital gap	220	Less: Current Liabilities other than bank borrowings	150	Less Current Liabilities other than bank borrowings	150
			128		152
25% of above from Long Term Sources	55	Working Capital Gap	220	Working Capital Gap	220
Maximum bank borrowings Permissible	165	Maximum bank borrowings Permissible	128	Maximum bank borrowings Permissible	152
Excess borrowings	35	Excess borrowings	72	Excess borrowings	48
Current ratio	1.17:1	Current ratio	1.33:1	Current ratio	1.22:1

ANNEXURE - VI
(Chapter 6/Para 8)

29.9.92

From : Prakash H. Mahtani
Chairman, Council for Leather Exports

To Dr. G. Sundaram
Additional Secretary
Ministry of Commerce
New Delhi.

REDUCTIION IN EXPORTERS MARGINS AND COMPUTATION OF MPBF BY BANKS

Taking into consideration the large export growth projected during VIIIth plan period it is imperative that relaxations should be given in the following areas related to export finance by Reserve Bank of India and Commercial Banks so as to enable the exporters to avail the export finance to the maximum extent.

a) Computation of MPBF
b) Margin contribution by exporters
c) Insistence of current ratio 1.3:1

We give in the statement I the computation of MPBF with 25% and in statement II with 10% margin.

From perusal of the workings it is clear that MPBF will look better if exporters' contribution from long term sources is reduced from 25% to 10%. This will give a better margin to exporters to raise funds to meet their ongoing export requirements. The banks need not insist for current ratio of 1.33 : 1 on a uniform scale across the board. Flexibility should be shown as far as export trade is concerned. The committee is requested to take note of the same while finalising the recommendations.

With regards,

Statement - I

PART - A

(Rs. lakhs)

ACTUAL ESTIMATED AND PROJECTED FINANCE REQUIREMENTS

	1992 Actual	1993 Estimated	1994 Projected
Finished Goods/Stock in process	87.69	145.00	170.00
Export Receivable	56.61	225.00	383.00
	144.30	370.00	553.00
Other Current Assets	5.44	11.20	17.20
Total Current Assets	149.74	381.20	570.20

Assumed that no 'norms' are applicable to the company/exporter.

Bank Borrowings	109.39	240.00	320.00
Trade Creditors	2.50	35.00	50.00

PART - B

(Rs. lakhs)

WORKING OF MPBF - METHOD I

	1992 Actual	1993 Estimated	1994 Projected
Current Assets as per RBI norms or as per actual (whichever is less)	149.74	381.20	570.2
Less: Current Liabilities (other than bank borrowings)	41.86	65.00	80.00
Net Assets	**107.88**	**316.20**	**490.20**
Less 25% from Long term sources	26.97	79.05	122.50
	80.91	237.15	367.50
MPBF	80.91	237.15	367.50
Bank Borrowing	109.39	240.00	320.00
Excess Borrowing	28.48	2.85	Nil
Current Ratio	1:0.99	1:1.25	1.42
Working Capital Gap	107.88	316.20	490.20
[CA - CL (other than BB)]	(149.74-41.88)	(381.20-65)	(510.20-80)
Net Working Capital	-1.51	76.20	170.20

PART - C

(Rs. lakhs)

WORKING OF MPBF - METHOD II

	1992 Actual	1993 Estimated	1994 Projected
Total Current Assets excluding Exporters Receivable	93.13	156.20	187.20
Less: 25% from Long Term sources	23.28	41.55	46.80
	69.85	114.65	140.40
Add Exporters Receivable	56.61	225.00	383.00
MPBF	84.60	274.60	443.40
Bank Borrowing	109.37	240.00	320.00
Excess	24.79	Nil	Nil
Current Ratio with available Bank Borrowings	0.99	1.25	1.42
Current Ratio with Bank Borrowing if increased to the MPBF whichever is higher		1.22	1.33

Statement - II

PART - A

(Rs. lakhs)

MPBF - (Revised with 10% margin proposal instead of 25%)

METHOD - I

	1992 Actual	1993 Estimated	1994 Projected
Current Assets	149.74	381.20	570.20
Less: Current Liabilities	41.86	65.00	80.00
	107.88	316.00	490.20
Less 10%	10.78	31.60	49.00
	97.10	284.40	441.20
MPBF	97.10	284.40	441.20

To this extent company can increase its borrowings

PART - B METHOD - II

Current Assets excluding Exporters Receivable	93.13	156.20	187.20
Less 10% from Long Term Sources	9.31	15.62	18.72
	83.82	140.58	168.48
Add Exporters Receivable	56.61	225.00	383.00
Net Assets	140.43	165.58	551.48
Less Current Liabilities	41.86	65.00	80.00
MPBF	98.57	300.58	471.48

PART - C

(Rs. lakhs)

WORKING OF MPBF METHOD II

	1992 Actual	1993 Estimated	1994 Projected
Total Current Assets excluding Exporters Receivable	93.13	156.20	187.20
Less: 25% from Long term sources	23.28	41.55	46.80
	69.85	114.65	140.40
Add Exporters Receivable	56.61	225.00	383.00
MPBF	84.60	274.60	443.40
Bank Borrowing	109.37	240.00	320.00
Excess	24.79	Nil	Nil
Current Ratio with available Bank Borrowings	0.99	1.25	1.42
Current Ratio with Bank Borrowings if increased to the MPBF whichever is higher		1.22	1.33

ANNEXURE - VII
(Chapter 6/Para 9)

Note on South Korean system of Export Credit

South Korea has a system of export loan which has the following features:-

1) Four kinds of export loan are provided, viz. (a) for production (b) for indigenous raw materials for export (c) for imported raw material and exports and (d) an integrated export loan.

2) Export loan is provided against L/C or actual exports during January-March, 1992.

3) Export credit is provided for 180 days.

4) The amount of export credit makes a distinction between small companies and big companies. Against one dollar of exports (either L/C or actual exports during January-March 1992) the following amount of export loan is provided for small and big companies under the four categories of export indicated at point (1).

Amount of Won per US dollar of exports given as export loan in South Korea.

	For production	Imported raw materials	Korean raw materials	Integrated export loan
Small companies	630	490	700	650
Big companies	360	300	440	400

Note: Above indicates amounts eligible as exports loan againt one US Dollar of exports; exchange rate is 1 US dollar = 792 Korean Won.

5) The amount of export loan at above terms is determined based on L/C or purchase order or agreement between importer and exporter.

6) Interest rate on export credit is at the prime rate which presently 7-8%; commercial credit is given at interest rate ranging between 10-12.5%.

7) There is no national limit for export credit. However, export companies have limits; if based on L/C the limit is 1.5 billion Won, if based on actual exports during January-March 1992 the limiit is 0.7 billion Won.

8) South Korea has a system of local L/C. Since trading companies are important in South Korea, a company which has local L/C can get export loan on the same conditions as there is no difference from L/C from abroad and local L/C.

9) Up to January 1992 companies which exported more than 10 million dollars could not use export loan. Recently, this limitation has been abolished. A small company is defind as one which has 700 employees or has assets below 12 billion Won.

10) There is no subsidy on interest rate.

11) Processing of export credit takes one day. Export companies show L/C and get loan. The special facility is to provide export loan even without L/C but against agreement between importer and exporter or purchase order from importer. Since there is no processing delay, it is known as automatic access.

ANNEXURE - VIII
(Chapter 6/Para 12)

RESERVE BANK OF INDIA

INDUSTRIAL & EXPORT CREDIT DEPARTMENT
CENTRAL OFFICE
POST BAG 10030
BOMBAY - 400 023

MEMBER - SECRETARY

REF.D.O. IECD No. EFD.1445/002-92
31 October 1992
9 Kartika 1914 (S)

Dear Shri

Dr. Sundaram's Committee on Export Finance - Sanctioning procedure for loans.

As you are aware, a Committee has been appointed by our Governor under the Chairmanship of Dr. G. Sundaram, Additional Secretary, Ministry of Commerce to look into the structure of export credit. One of the terms of reference is to study the existing sanctioning procedure obtaining at commercial banks for sanction of loans with particular reference to export credit and suggest ways to expedite the sanction.

2. In the interaction with the individual exporters and also with the representatives of export Promotion Councils and Organisation, it has been reported that there is inordinate delay in sanctioning of credit limits to the borrowers and it is stated that generally the sanction of limits took 6 to 9 months. Although normally the banks are required to sanction credit limits within 3 months' time, the exporters have stated that seldom the time schedule is adhered to. It has also been brought to our Notice that adequate powers have not been delegated down the line, with the result decisions are required to be taken in most of the cases at Head Offices of banks causing inordinate delays since applications may have be to be routed through various stages. It has been pointed out by the exporters that in cases where additional export orders have been received by them beyond their project sanctioning adhoc limits is also very much delayed. The exporters have requested that the credit dispensation should be faster to enable them to improve their performance and earn valuable foreign exchange for the country.

3. While we are aware that banks have systems and procedures for granting of limits to borrowers, we would like to have informations as per the enclosed proforma to enable the Committee to study the problem and suggest ways to expedite the sanction. I will be grateful if you will kindly arrange to complete the enclosed information sheet and return to us before 15 November 1992.

I thank you in anticipation for your kind co-operation.

With regards,

Yours sincerely,

(H. Natarajan)
Encl.: as above.

Feedback Sheet

Procedure for Sanction of Loans

1. Name of the Bank

2. Brief note on the existing system of delegation of powers at various levels with the cut-off amounts, and the time limit fixed for sanction of credit limits.

3. Whether powers are delegated down the line to exceed the sanctioned limits temporarily subject to confirmation subsequently by appropriate authority. If so the details of period and cut-off limits.

4. Whether powers exist for granting adhoc additional limits. If so details thereof.

5. In respect of items 2,3 and 4 above whether any special dispensation is given in respect of export credit both at pre and post-shipment stages. Apart from relaxations as per RBI policy guidelines in regard to export credit any other special relaxation given by the bank such as waiver of margin, exclusion of export bills under irrevocable L/C from the bills limits, etc.

6. Whether there is a system to review periodically the adequacy or otherwise of the powers delegated. If so the frequency and the date of last review.

7. Whether there is a system to ensure that delegated powers are properly exercised by the officials concerned.

8. (a) What is the normal time fixed for sanction of different category of credit limits.

   (b) What is the average time actually taken for the sanction (assuming that the application submitted by the borrower is complete in all respects).

   (c) In case of sanctions beyond the prescribed time schedule please specify common reasons for the delay.

   (d) If the delay is on account of the failure on the part of the borrower to submit the application complete in all respects, please specify the common deficiencies identified which delays the processing of applications.

9. Whether there is a complaints redressal mechanism with particular reference to delays in sanction of limits.

10. Your suggestions for expediting dispensation of crediit

    (a) measures to be taken by banks
    (b) steps to be taken by exporters
    (c) changes in any other area.