

Report of the Technical Committee on Services/Facilities to Exporters



April 29, 2013

**Reserve Bank of India
Foreign Exchange Department
Central Office
Mumbai**

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LETTER OF TRANSMITTAL

Executive Director

April 29, 2013

Shri H. R. Khan
Deputy Governor
Reserve Bank of India
Mumbai.

Dear Sir,

We have great pleasure in submitting the Report of the Technical Committee appointed for evaluating the entire gamut of facilities/services provided by banks / financial institutions to the exporters.

The approach adopted by the Committee was to examine the gaps / inadequacies / lacunae in the financial system/procedures, which may be obstructing flow of finance to the exporters while dealing with banks and financial institutions. Apart from examining issues related to policies with respect to export finance in general, the Committee took a look at transaction costs, transition period, documentation, etc., as also specific policy issues related to SEZs, Merchanting Trade & Factoring. Accordingly, three Groups were formed under the Committee to examine and recommend on areas assigned to them (Group I –Export related policies, Group II- Transaction cost & Documentation & Group III- Issues concerning SEZs, Merchanting Trade & Factoring) for improvement of services /facilities to the exporters.

The Committee met on three occasions and, in between, the three Groups had worked together to arrive at making suitable recommendations for improving the various facilities to the exporters.

On behalf of the members of the Committee and on my own behalf, I sincerely thank you for entrusting this responsibility to us.

With warm regards

Yours sincerely

(G. Padmanabhan)

Executive Summary

A sharp deceleration in world trade had set in 2007-08 and again in 2011-12 and the subsequent period impacting demand for exports from India. Given the fact that US economy is still weak and there are multiple problems with Euro Area, the global trade environment may not improve in the immediate period. There is therefore an urgent need to boost India's exports so that the trade deficit is narrowed down and current account deficit stays within the projected cap. Needless to add that towards achieving this goal, concerted and coordinated efforts need to be made by Government of India (Ministry of Commerce and Industry), Reserve Bank of India, Trade bodies, individual exporters and perhaps State Governments as well, by providing an enabling environment, good infrastructure and some tax incentives/subsidies.

Over the years, the Government has adopted multi-pronged strategy to boost exports by providing a stable policy regime, adopting a conscious market diversification plan and providing additional support to sectors needing hand-holding. It has encouraged technological up-gradation and undertaken simplification of procedures to reduce transaction costs. The measures are aimed at consolidating the traditionally strong sectors of economy while focusing on sunrise sectors.

Reserve Bank of India on its part has also brought about a number of liberalisations to support this sector, such as introduction of Gold Card Scheme for availability of hassle-free export credit, transparency of bank charges for various services provided by AD Banks, enhancement of Rupee export credit refinance limit (from 15 to 50 percent), introduction of a new US Dollar-Indian Rupee swap facility, deregulation of interest rate on export credit in foreign currency and increase in cap within which Indian banks can contract foreign lines of credit, relaxation in EEFC stipulation (after curtailing the conversion ratio to 50% of exchange earnings in May 2012), relaxation in realization period, etc. Still, exporters continue to face a lot of difficulties in accessing the various services / facilities extended by the banks and financial institutions. In particular, time and again cost of credit to exporters has been singled out as a major cause for Indian exports not being competitive by individual exporters, trade / exporters' bodies and others in various fora.

Given the importance of export sector in our economy in the context of widening current account deficit, it was felt necessary to review the entire gamut of facilities / services provided by banks / financial institutions such as export credit, hedging, factoring services, insurance coverage, issues pertaining to SEZs, guidelines on merchanting trade, etc, Accordingly, this Working Group was set up by the Reserve Bank of India.

Against this backdrop, the Report evaluates and suggests ways for improving financial support from alternative sources like factoring, receiving export advance from external sources directly by the Indian banks. An assessment of the efficacy of schemes of export supporting institutions like the Exim Bank and ECGC has also been made in the Report apart from suggesting measures to rationalise the transaction costs and risk mitigation for the exporters and simplification of the existing documentation requirements. Report also concentrates on the needs of Exporting Units located in SEZs as also the suggestions for putting into place revised set of instructions with respect to Merchanting Trade and Project Exports.

The Report has been prepared in Trade Division of Foreign Exchange Department by a core team comprising of senior officials from Reserve Bank, Exim Bank, ECGC, FIEO, IBA, FEDAI, FIMMDA, EEPC India, SBI, ICICI Bank, Citibank, Standard Chartered Bank, Union Bank of India, Axis Bank, SBI Global Factors & India Factoring Services. Special thanks are due to the members of the Sub Groups for their contributions during the meetings and their efforts in drafting the recommendations.

The Report had the benefit of valuable support from Department of Economic Policy & Research and Department of Banking Operations & Development.

The Report has been drafted in such a way that each paragraph itself is a suggestion/recommendation. Hence the usual "Summary of Recommendations" would be conspicuous by its absence in the report.

Chapter 1

Introduction

Background

1.1 India has achieved an average export growth of about 20 percent in the last decade, with the value of Indian exports growing from USD 44.01 billion in 2000-01 to USD 304.6 billion in 2011-12. During this period, world exports witnessed a Compound Annual Growth rate (CAGR) of 7 percent. As a result, India's share in global exports climbed up from 0.7 percent in 2000 to 1.6 percent in 2012. India's rank as one of the leading exporters of the world also improved from 31st position in 2000 to 19th position in 2012, as per WTO data.

1.2 Following the global economic crisis, export growth slowed down to 13.6 percent in 2008-09, and thereafter declined by (-) 3.5 percent in 2009-10. During the subsequent two years (i.e. 2010-11 and 2011-12), India's exports witnessed high growth due in part to various measures taken by the Government to boost exports, as also the weakening of the Indian Rupee. However, India's exports started to witness a declining trend in the year 2012-13, following the intensification of the Eurozone crisis and the continued fall in global demand.

1.3 According to WTO, world trade (in volume terms) growth in 2012 was about 2 percent, which was sharply lower when compared to the 5.2 percent recorded in 2011. WTO has also projected the trade growth (in volume terms) for the year 2013 to be 3.3 percent, which is below the 20-year average growth of 5.3 percent, and well below the pre-crisis period (1990-2008) trend of 6 percent.

Table – 1: Export Growth in Select Economies

Country/Region	Trade (USD bn)		Export Growth	
	Exports	Imports	2012	Average (2005-12)
World	17850	18155	0	8
North America	2373	3192	4	7
USA	1547	2335	5	8
South and Central America	749	753	0	11
Brazil	243	233	-5	11
EU (27)	5792	5927	-5	5
CIS	804	568	2	13
Russian Federation	529	335	1	12
Africa	626	604	5	11
South Africa	87	123	-11	8
Middle East	1287	721	3	13
Asia	5640	5795	2	11
China	2049	1818	8	15
Japan	799	886	-3	4
India	293	489	-3	17
ASEAN	1254	1221	-1	10

Source: World Trade Organisation.

1.4 The slowdown in Indian exports has however occurred in a situation where imports have not declined, with the result that the trade deficit(TD) and the current account deficit(CAD) are projected to reach substantial level in 2012-13 (in third quarter of FY 2012-13 it is estimated to have reached 6.7% of GDP, figures for fourth quarter are not yet published). With petroleum and derivatives, precious metals along with edible oils being major components of the import basket where India has no pricing power, country's ability to address the import sector is relatively limited. It is of great importance therefore that the country's exports be stepped up, so as to reduce the trade and current account deficits to sustainable levels. Given the current global and Indian

scenario and the importance of the export sector in the overall economic context, the Reserve Bank of India has constituted this Technical Committee (Chairman: Shri. G. Padmanabhan) to examine issues relating to various difficulties being faced by exporters with regard to availability of credit, transaction costs, insurance and factoring and other procedural issues in their dealings with banks and financial institutions.

1.5 The Committee had wide representations from Exim Bank, ECGC, key commercial banks, trade bodies, such as the Federation of Indian Export Organisations (FIEO), the Indian Banks' Association (IBA) and the Foreign Exchange Dealers Association of India (FEDAI). Senior officers from the Department of Banking Operations and Development, Foreign Exchange Department and the Department of Economic Policy and Research of the Reserve Bank were also represented on the Committee. List of representatives is given at **Annex – I**.

1.6 The terms of reference of the Technical Committee are given at **Annex – II**.

Methodology

1.7 At the outset, the Committee members, guided by the Chairman, decided to examine the issues affecting exports in the following three broad categories, and formed sub-groups to explore various policy options and solutions.

- Group – 1 : to look into policy changes required at various levels, viz., RBI, IRDA, Government of India level, etc.;
- Group – 2 : to look into issues related to transaction cost, transit period and simplification of documentation; and
- Group – 3 : to look into issues relating to financing of units in SEZs, merchanting trade transactions, factoring and insurance related issues.

1.8 While the full-fledged Committee met thrice, on February 11, February 28; and March 26, 2013, the three Sub-groups met more often, both formally and informally, to discuss pertinent issues, as also to hear representations and suggestions from the

industry. The Sub-groups also met other organizations / agencies who are not part of the Group, but who play significant role in promotion of India's exports.

1.9 The recommendations are grouped broadly on the issues covered by each sub-groups. Whenever issues have overlapped among the sub-groups, recommendations appear at the most appropriate place as perceived by the Committee.

Chapter - 2

Regulatory/ Government Policies– Recommended Changes to Boost Indian Exports

2.1 This Section examines various policies relating to the export sector and covers regulatory as also Government policies and recommends changes which, in the opinion of the Committee, if implemented, would incentivize the country's exports. Recommendations cover areas such as flow of finance, availability of competitive finance, export incentives, risk mitigation, simplification of procedures, etc.

Increasing the Flow of Finance

2.2 The Committee reviewed the priority sector lending policy applicable to the Scheduled Commercial Banks (SCBs). Till 20th July 2012 in the case of foreign banks, 32% of Aggregate Net Bank Credit (ANBC) or credit equivalent amount of Off-balance Sheet Exposure, whichever is higher, needed to be deployed as Priority sector advances(PSA). Within PSA , 12 % credit had to go to export sector. On acceptance of the recommendations of the Nair Committee by the Reserve Bank, this target has been raised to 40% for foreign banks with 20 or more branches while for banks with less than 20 branches, it has been retained at 32% . Further for foreign banks with 20 branches and above, export credit have been taken out from purview of PSA. In case of banks with less than 20 branches, lending to export sector continue to be part of PSA (with out any specific sub target for exports).These revised targets and sub-targets have to be achieved within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018. It observed that as on 31 March 2011 and 2012 ten and five foreign banks failed to achieve 12% target in respect of export credit. To provide required thrust to exports, the Committee recommends, export credit to be included under the priority sector lending for all commercial banks for a period of 3 to 5 years subject to periodic review. Further the committee suggests:

- Introduction of a sub-target of 8 percent of Aggregate Net Bank Credit (ANBC) or credit equivalent amount of Off-balance Sheet Exposure, whichever is higher for exports. To encourage flow of credit to MSME sector, RBI to look into the feasibility of fixing a suitable sub-target.
- Alternatively, the Committee suggests inclusion of 'export credit' as an eligible sector for deployment of 50 percent of the respective bank's shortfall in priority sector, automatically allocated to export credit in the subsequent year, with the balance shortfall continue to be deployed in RIDF. **(Action-RBI)**

2.3 Under the extant export credit refinance policy, 50 percent of the outstanding export credit are eligible for refinance. The Committee also noted that the limit was increased from 15 percent to 50 percent on June 30, 2012. The Committee recommends for continuation of this facility at least for the next 3 years which would provide certainty in availability of funds to the banks for managing their asset liability positions, and would also build confidence among the exporting community.

(Action-RBI)

2.4 The committee noted that the recent Swap facility introduced by RBI thereby enhancing availability of foreign currency is a proactive step towards ensuring flow of credit to the export sector. Under the Swap arrangement, SCBs can buy US dollars within its eligibility from RBI and simultaneously sell the same forward, at a fixed tenor of 3/6 months with a view to support incremental Pre-shipment Export Credit in Foreign Currency (PCFC) by banks at the prevailing rates. At the end of swap term, banks will exchange US dollars with RBI against the Rupees. Also, under the facility, the eligible banks have been granted the option to access rupee refinance to the extent of the swap with RBI under a special export credit refinance facility. The eligibility for each bank has been fixed based on incremental PCFC disbursement with respect to a base date of November 30, 2012. The overall cap for the system, thus, has been fixed at US Dollar 6.5 billion. Under the facility, as on April 26, 2013, 18 banks have availed the facility to the extent of US Dollar 2.0 billion. The refinance facility has been availed by 16 of these

banks to the extent of Rs 98.2 billion¹. Discussions with banks reveal that since the US Dollar is being made available to them at market related costs, they are able to pass on substantial amount of benefit to the exporters. The facility will come up for review at the end of June 2013 and hence has given rise to some level of uncertainty and discomfort among the banks as well as the exporters since their ability to plan for the medium term is impaired. The Committee suggests that the scheme be made available for a longer term, at least for 3-years with annual rollover. Should the need be felt at a future date for discontinuation, the same could be done with adequate notice and grandfathering of deals done.

(Action- RBI)

2.5 The Committee reviewed the finance options available for exporters intending to undertake modernization / technological upgradation / capacity creation. In general, exporters either secure Rupee finance in the form of term loans, or foreign currency finance in the form of ECBs or term loans in foreign currency. The Committee viewed that currently companies find it difficult to take up modernization / technological upgradation due to high cost of Rupee financing, and / or challenges associated with securing foreign currency financing. The severity of the challenge is greater for small and medium enterprises. The Committee is of the view that technological upgradation to optimize the cost is critical to build competitive edge in the international markets. Similarly given the rising cost of labour and other inputs in major exporting countries like China, it was time that the Indian exporting community considered capacity expansion as they were lacking in scale. The Committee recommends that a nodal agency be set up for borrowing in foreign currency from abroad on a pool basis and further lend to these companies in India at competitive rates. Borrowing on a pool basis will increase the bargaining power of this nodal agency with overseas lender thereby ensuring cost effective solution to exporters for its technological innovation/ upgrades/ capacity expansion. It was noted that the Exim Bank has recently introduced a new refinance product to banks in India whereby they can access short as well as medium-long term funding in US Dollars for on lending to SME exporters. Exim Bank maybe nominated as

¹ Data on number of banks availing the Swap facility, the US Dollar outstanding amount and number of banks availing refinance is obtained from RBI and is not available in the public domain.

the nodal agency for this initiative. While banks that are unable to competitively raise funds overseas can avail of the Exim Bank window, the Committee recommends that other banks who have the ability to raise US Dollar funding overseas could allocate a portion thereof to the SME exporters. **(Action- Government and RBI)**

2.6 The Committee also reviewed the working of the Gold Card Scheme. Post announcement by Government of India (Ministry of Commerce and Industry), in consultation with RBI in the Foreign Trade Policy 2003-04 about launch of a Gold Card Scheme the Reserve Bank in consultation with select banks and exporters, drew up a Gold Card Scheme. The Scheme envisages certain additional benefits based on the record of performance of the exporters. The Gold Card holder enjoys simpler and more efficient credit delivery mechanism in recognition of his good track record. The Committee observes that there are implementation problems with scheme at the level of banks. The Committee recommends a review of Gold Card Scheme(GCS) for greater facilitation to the exporters. **(Action-RBI)**

2.7 The Committee is also of the view that 'Line of Credit' in foreign currency should be made available to exporters in order to provide flexibility to exporters (pls. refer para 2.9 and Annex-IV as well). Buyers credit should also be made increasingly available, and the cap of USD 20 mn for Trade Credit may be raised in deserving cases.

(Action- RBI)

2.8 If the receivables owed to the SMEs for their exports to large firms could be securitized, it would result in both deepening and broadening of Indian credit markets. In principle, such receivables, if accepted, are essentially commercial paper with the high credit ratings of the large firms. The Nacional Financiera (NAFIN), a development bank owned by the Mexican government that supports small and medium-sized enterprises, has created an electronic system where any small firm could present its receivables from a number of large firms. NAFIN has also set up arrangements with these large firms in advance, to have these receivables presented and accepted electronically. The accepted receivables, now full-fledged claims on the large firms, are then auctioned out

in the market, and the proceeds paid out to the small firms. The potential benefits of securitisation of receivables include the following:

- The SMEs could reduce their investment in working capital, and thus their need for finance, significantly.
- The balance sheet clean up would improve the credit worthiness of the average SME, qualifying the company for more bank loans as well.
- A new market for securities will come into being, creating new financial sector assets and jobs. By our current estimates, the underlying asset base will be one billion dollar plus in the initial years and will grow rapidly.
- Growth in the SME and financial services sectors will have strong positive multiplier effects throughout the Indian economy. A realistic estimate of the secondary effects is currently not available.

Various steps necessary to securitise trade credit are given at **Annex– III**.

(Action-Government//RBI)

Policy Measures to Increase Cost-effective Finance

2.9 The Committee noted that exporters prefer foreign currency borrowings over Rupee financing for the following two reasons: a) due to natural hedge available for their export operations; and b) due to cost competitiveness of foreign currency funding vis-à-vis Rupee borrowings. Currently, post-shipment credit can be rediscounted with overseas banks. Liabilities arising due to this rediscounting are not included for DL/NDTL computation for the purpose of CRR and SLR. In order to make available cost-effective export credit, the Committee recommends exemption of foreign currency borrowings, EEFC, FCNR(B) deposits, to the extent of export finance in foreign currency (pre and post shipment finance), from DTL/NDTL calculations, in order to eliminate the burden of CRR/SLR impact on cost of lending.. Alternatively, exporters should be permitted to access foreign markets for their requirements directly (similar to trade credit availed for imports into India). Details are given in **Annex – IV**.

(Action-RBI)

2.10 The Committee noted that existing scheme of interest subvention on Rupee export credit is catering to a few employment oriented sectors, and the eligible sectors are often modified to meet the additional requirements. There is a need to widen the scope of subvention to ensure larger exporter segment derive benefit from the Scheme. The Committee recommends inclusion of additional sectors, such as electronics and all engineering goods, especially automotive sector; and all exports originating from DTA units to SEZs; besides redefining the SMEs with higher investment/turnover criteria, to enhance the scope and eligibility of the Scheme. **(Action-Government)**

2.11 While the present interest subvention scheme caters to short term export finance, project exports, which are of long term nature, are left unsupported under such cost competitive mechanism. The Committee, thus, recommends framing of suitable interest subvention policy for long term export credit. The Committee noted that China has been supporting its official export credit agency through various measures including interest subvention. **(Action-Government)**

2.12 The Committee noted that in an increasing cost scenario, the impact of withholding tax on overall cost of borrowing is compounded. The Committee also noted that Brazil is providing relief from withholding tax for certain cross-border payment of interest under the pre-export financing arrangement system. The Committee accordingly recommends exempting withholding tax on resources raised abroad, in order to reduce the cost of incidence of foreign currency credit to exporters. **(Action-Government)**

2.13 The Committee received representation that earlier the interest rate on export credit in foreign currency was fixed at LIBOR plus 350 bps. However, with the view to increase the availability, RBI has deregulated the interest rate on export credit in foreign currency. As a result, banks are now charging LIBOR plus 400 bps minimum, with risk premium going upto 500 bps to SMEs. Hence, exporters were of the view that lifting the interest ceiling has increased the cost of borrowing, particularly for the SMEs. Given that, presently, international lending rates are much lower, and even ECBs are available

in India at LIBOR plus 200 bps there is a need to review this approach. To start with, the Committee recommends that in respect of export finance for which refinance is being provided by the RBI, banks may not charge spread beyond a specific cap.

(Action-RBI)

Incentivising exports - Certain Practices Followed by Other Countries

2.14 Countries like Singapore and Sri Lanka offer differential tax rates to promote exports. Details are given at **Annex – V**. On the same lines, Government may consider offering differential tax regime for the exporters. Such a regime may aim to offer a reduced tax rate for exporters. The differential rate and the eligibility may be set depending on the sector/industry that deserves such support and net contribution of the sector to forex kitty.

(Action-Government)

2.15 Exporters need to frequently incur soft expenditures – like branding, advertisement, promotional events such as participation in trade fairs, as also business travel, for which the financial availability is limited. It is important to incur such expenses in view of staying afloat in a competitive environment. The Committee viewed that such expenses need to be encouraged through various means, including a concept of double tax deduction. The Committee recommends allowing eligible companies to deduct against their taxable income twice the amount of expenses incurred on certain qualifying activities. A similar Double Tax Deduction Scheme is currently being offered to exporters in Singapore - details are given in **Annex – VI**.

(Action-Government)

2.16 Exporters are incurring numerous levies, such as VAT, purchase tax, turnover tax, octroi, electricity duty, which are making the export pricing uncompetitive. According to estimates by FIEO, such levies add up the cost to around 2 to 3 percent. The Committee notes in this regard introduction of goods and services tax is an urgent requirement as it will make the tax structures more streamlined. Exporters often seek

refund of various levies, which is believed to be improving the cost efficiency of Indian exports by 2 to 3 percent. Certain countries such as China (VAT refund; some provinces in China provide subsidy on insurance premium, and/or interest to exporters who obtain bank financing by assigning their insurance policies with Sinasure), and South Africa (refund of Customs and Excise duties, zero VAT) provide such exemptions/refunds making their exports competitive in world market. **(Action-Government)**

Measures to Improve Risk Mitigation for Exporters

2.17 Significant part of factoring businesses conducted internationally is based on trade insurances; and that players like Coface, AIG and Lloyds have products where trade credit insurance policy is issued to banks or financial institutions – both for single risk cover and whole turnover policies. In order to boost factoring which will in turn lead to credit flow to exporters, permission may be granted to Indian banks to obtain insurance from foreign insurance companies directly. The Committee noted that, at present, a person resident in India is permitted to continue and hold any general insurance policy issued by an insurer outside India when such a person was resident outside India.

(Action-IRDA/RBI)

2.18 At present ECGC reportedly requires banks to take insurance for the entire export advance book while issuing whole turnover policy. The payment of premium for covering the entire export advance book may work out to be expensive proposition for banks as the margins are thin in corporate deals. Hence, ECGC may consider introducing new schemes permitting banks to cover segment/sector specific portfolios. For example, banks may opt to take insurance for its SME portfolio or gems and jewellery sector portfolio. Besides, the processes need to be defined for confirmation and acknowledgement by ECGC for earmarking the cover issued to the exporter favouring banks to the extent of bank credit (IRDA guidelines to this effect should be modified suitably). This would boost smooth flow of bank credit to exporters who have obtained ECGC cover. **(Action-IRDA/ECGC)**

2.19 The Committee noted that in many cases, Indian exporters avail Buyers Cover Policy from ECGC to protect themselves from the default of one or more overseas Buyers. This policy is a direct contract between ECGC and the exporter, where the exporter is the 'insured.' When exporters avail export credit from banks, this policy is assigned in favour of the Bank / banking consortium providing the export credit as the beneficiary of the policy. In the event of default by the approved Buyers, the exporter (as the insured) is required to lodge the claim with ECGC. It has been observed, however, that in several cases, the exporter declines to lodge a claim under the pretext that the matter is under negotiation or that the exporter does not wish to impair relations with the overseas buyer or does not wish to impair his record with ECGC. While such reasons may not be necessarily exceptionable, the interest of the financing bank[s] is adversely impacted by protracted delay / default in repayment by the exporter. In such cases, the financing banks approach ECGC with a request that they be permitted to lodge the claim as an agent of exporter, often backed by a specific Power of Attorney in this regard. This is necessitated as the Bank cannot directly lodge the claim with ECGC though it is the beneficiary, as it is not the insured. It is understood from banks that ECGC refuses to acknowledge such claims on the ground that the claim can only be lodged by the exporter. While technically correct, this rationale defeats the purpose of the cover. The Committee recommends therefore that ECGC may evolve a mechanism for permitting the beneficiary banks, under appropriate power of attorney, to lodge such claim in the event that the insured exporter persistently fails / refuses to do so. The consortium of working capital banks will need to evolve norms for appropriation of such monies, to the banks that has negotiated the underlying bills or to be shared among the consortium banks pro rata. **(Action-ECGC)**

2.20 Export factoring is an international financial solution that releases cash within 24 hours of an invoice being raised, providing working capital to fund the business growth of exporters. The worldwide volume for factoring increased sharply in 2011 to reach a level of USD 2.6 trillion posting a growth of 22 percent over the previous year. The biggest factoring business growth has been witnessed in inter-Asian trade, including a remarkable growth of import factoring in markets such as China, Taiwan and Hong

Kong. Globally, there are approximately 2,700 active factoring providers, which were advancing around €300 billion to around 485,000 factoring clients. The five biggest traditional receivables finance markets remain the long established European countries: UK & Ireland (14.6%), Italy (8.93%), France (8.9%), Germany (8.02%) and Spain (5.72%). Asia, including the estimates for China and Taiwan, represented approximately 19 percent of turnover, followed by South America (8%), North America (5%), Australia and New Zealand (3%) and Africa and Middle East (2%).

2.21 Although the Factoring Regulation Act, 2011, has been passed in India, there are no clear operating guidelines for the banks. At present, purchase of non-LC bills by banks without recourse to the drawer is restricted. The Committee recommends that banks may be permitted to extend 'non-recourse' factoring, or 'limited recourse' factoring as 'with recourse' factoring may not be treated as true sale for assignor. Similarly, Annexure 5 of RBI Master Circular on Income Recognition and Asset Classification (IRAC) norms defines 'advances' as all kinds of credit facilities, including factored receivables. The Committee is of the view that in the event of receivables falling overdue, they should be treated as default of drawee and the same may be reported to CIBIL provided factoring is done on non-recourse or limited recourse basis. The assigner should be treated as defaulter only if factoring is done with recourse. Provisioning and asset classification of receivables should be in line with those applicable to loans and advances. **(Action-RBI)**

2.22 Further, single borrower and group borrower credit exposure ceilings should be applied on the drawee of the receivables and not the drawer, if the factoring is on non-recourse or limited recourse basis. Banks should also be able to set up its own fee policy for factoring business as income earned from acquisition of receivables is in the nature of fee and not interest. **(Action-RBI)**

Policy Measures for Simplification of Procedures

2.23 The Committee reviewed the procedures followed in some of the countries in the regime. Singapore has facilitated integration of import, export and transshipment documentation and processing procedures resulting in reduction in cost and turnaround time for the preparation, submission and processing of trade and shipping documents, expediting faster cargo movement. Other countries, such as Australia, Taiwan, Hong Kong, South Korea, Malaysia, Thailand, Indonesia, Japan and Philippines are also having online declaration of trade data facilitating faster clearance of customs. The Committee noted that simplification of export procedures and documentations have been introduced in India as well, significantly through EDI system. There is still room for improvement, towards achieving single window clearance as successfully implemented in other countries. Some major importers have been given the Green Channel clearance facility, which means clearance of goods without routine examination of consignments, based on self declaration. However, shipping bills of some categories of export consignment (e.g. shipping bills where FOB value is more than Rs. 10 lakh; shipping bills where drawback is more than Rs. 1 lakh, etc.) are assessed by the Assistant Commissioner (Export). Such assessment could be done away with for certain category of exporters (eligibility criteria can be set based on turnover or track record). Besides, there is also room for simplification of custom procedures for export from DTA units to SEZ units.

(Action-Government)

2.24 Inland Container Depots (ICDs) are helpful for exporters and speed up export transshipment with lesser hurdles for exporters. The process of setting up ICDs involves multi-level approvals, which increases lead time between conceptualization and operationalization of ICDs. Brief procedures for setting up of an ICD are given at **Annex – VII**. The Committee felt the need for simplification of procedures for establishing ICDs to reduce the lead time between conceptualization and operationalization. Besides, ICDs may be considered for according infrastructure status, thus providing tax relief under Section 80IA of IT Act, thereby encouraging additional investments. ICDs may also be encouraged to provide additional facilities – e.g. quarantine facilities for agro-

products, testing/laboratory facilities etc., which are being carried out at ports. The Committee also recommends that consolidated information of receipt, dispatch & clearance of containerized cargo made available on-line for all ICDs for effective planning and reduction of cost (Transport cost and /or Storage cost).

(Action-Government)

2.25 The Committee noted that in order to stabilize the foreign exchange market, RBI has issued a circular (No. 58 dated December 15, 2011) wherein forward contracts, which were cancelled, are not allowed to be rebooked. This was modified permitting exporters to cancel and rebook forward contracts to the extent of 25 percent of the contracts booked in a financial year for hedging the contracted export exposures. It is recommended that the limit may be increased in a phased manner to provide more operational flexibility to exporters in their hedging operations.

(Action-RBI)

2.26 Earlier all foreign exchange earners were permitted to retain 100 percent of their foreign exchange earnings in EEFC account with any AD in India. This was modified subsequently with mandatory conversion of 50 percent of their earnings; and thereafter allowed credit of 100 percent of foreign exchange earnings to the EEFC account subject to the condition that the sum total of the accruals in the account during a calendar month should be converted into Rupees on or before the last day of the succeeding calendar month after adjusting for utilization of the balances for approved purposes or forward commitments. The Committee recommends a periodical review of this policy based on market conditions to accord greater freedom to the account holders.

(Action-RBI)

2.27 At present, exporters are permitted to receive advance payment for export of goods which would take more than one year to manufacture and ship, where the 'export agreement' provides for shipment of goods extending beyond the period of one year from the date of receipt of advance payment (Master Circular on Export of Goods and services – B.8.(2)). In a scenario of buyers willing to extend advance to the exporters for

a longer period in return for long term supply commitments, this facility may be used for promoting exports on longer term basis since there is no time cap specified by RBI.

(Action-Banks and exporters)

2.28 The Committee noted that export finance limit is mostly sanctioned by Indian bank who revalue the foreign currency borrowings like PCFC & PSCFC on periodic (ranging from daily to monthly) basis. This often results in notional excess utilization over and above the sanctioned limits in case of weakening Rupee. This could impact future order execution by exporters. One of the major challenges faced by banks in this regard is that charge registration with Registrar of Companies can be in Rupee only. The Committee is of the view that denomination of facility in foreign currency would ensure that exporters are insulated from Rupee fluctuations. The Committee recommended that Registrar of Companies should permit charge creation in multi currency. Alternatively, charge should be recorded in foreign currency at Registrar of Companies with a notional INR value which may be revalued at regular intervals. **(Action-RBI/ Government)**

2.29 The service sector is growing rapidly. Hence, there is a need for guidelines to be issued for documentation required for granting post shipment credit to the service sector. **(Action-RBI/IBA)**

2.30 The Committee noted that currently direct dispatch of documents by exporters is restricted only by Status Holder Exporters & units in SEZ. In order to provide greater flexibility to exporters, direct dispatch of documents by exporters may be freely permitted to regular overseas buyers and with good track record. **(Action-RBI)**

Chapter - 3

Issues Related to Transaction Cost, Transit period and Documentation

Transaction Cost

3.1 In 2011, India's cost to export (value) & time to export (days) per transaction stood at USD 1095 and 16 days (Includes costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport), significantly above the global respective average of 700 and 9. (Source – World Bank). In June 2012, Ministry of Finance, Government of India proposed to unveil a new 'single window' clearance system for exporters. The system is being envisaged to allow electronic filing of shipment details by exporters, and facilitate clearance by government departments. The Committee is of the view that focused implementation of this scheme would significantly benefit exporters. Such a single window model which is prevalent in South Korea is presented at **Annex – VIII**

(Action-Government)

3.2 The Committee noted that hedging process in the OTC market involves tedious documentation. Exporters are required to provide quarterly declaration of forward contracts booked, and certified by a Statutory Auditor. The Committee is of the view that the quarterly duration for declaration of forward contracts booked by the exporter and certified by Statutory Auditor may be replaced with a quarterly self certified declaration by the exporter and an annual duration of declaration certified by Statutory Auditor, at least for exporters having a satisfactory track record.

(Action-RBI)

3.3 E-Commerce is widely practiced to reduce transaction cost, especially commission paid by exporters to trade intermediaries. The business model of enterprises exporting through E-Commerce is different from that of traditional exporters in the sense that the orders (received through web-portal) as well as payments (through online entities like PayPal) are executed through web-based solutions. As a result, exporters are able to price their products more competitively and/or earn better price margins. The Committee

noted that at present the limit of international E-Commerce transactions is set at USD 3000. The limit may be raised to USD 10,000 in order to encourage more online transactions and payments. **(Action-RBI)**

3.4 The Committee received representation from exporters that bankers are recovering Service Tax from the exporters for all foreign currency remittances, though Department of Revenue, Ministry of Finance has issued a Circular (No. 163/14/2012-ST, dated July 10, 2012) clarifying that no Service Tax per se on the amount of foreign currency remittance to India from abroad. The Committee suggests that a clarificatory directive from RBI to all banks in this regard may be issued. **(Action-RBI)**

Transit Period

3.5 As per FEDAI Rules, the transit period for sight bills for North America/Latin America is fixed at 25 days. Since the voyage time to such distantly located regions of North America and Latin America is 60 days, the buyer will not accept L/C documents within stipulated period, until the arrival of the goods (average voyage time to LAC region is normally about 60 days) mainly for two reasons:

- If the buyer accepts the L/C and makes the payment, he incurs the interest cost for 35 days (60-25 days) which he wants to avoid by deliberately raising artificial discrepancies in case of L/C, and in case of CAD, the buyer will only accept / pay for the documents closer to vessel arrival.
- On the other hand the Indian exporter suffers penal interest for 35 days (60-25 days), which is an added transaction cost on exports.

The Committee viewed that a practical scrutiny of the situation may be undertaken while fixing the transit period for sight bills, and this may be suitably enhanced for long distance markets. FEDAI may evolve a common norm in this regard. **(Action-FEDAI)**

3.6 The Committee heard the complaints of exporters that the banks are charging processing charges of Rs.400 per lakh subject to a maximum of Rs.20 lakh. If an exporter seeks renewal of limits of Rs.50 crore, charges are levied to an extent of Rs.20

lakh. Exporters also complained that, sometimes, where the cargo reaches little late or the buyers face some financial problems, the remittances get delayed, and for this overdue period, banks charge a commission of Rs.500 per document and per quarter. Banks also levy penal rate of interest when there is delay in export realization. While the committee is not inclined to recommend micro management of charges by the regulator, it need to be ensured that such charges are reasonable and logical. Besides, there is a need for greater transparency as regards these charges, including their publication by respective banks. The Committee recommends that RBI/FEDAI assesses this issue in its entirety with a view to taking appropriate action.

(Action-RBI /FEDAI)

3.7 Credit rating, though not mandatory in India for securing bank financing, has become a desired feature in banks' lending requirements. Exporters have complained that credit rating involves tedious paperwork, as also high cost, especially for the MSME sector. A mechanism needs to be devised to subsidise the credit rating fees in order to incentivize exporters to voluntarily obtain credit rating. A corpus for the same can be created by the Government to be administered by Exim Bank. However, the Committee is of the opinion that credit rating is a normal feature these days and contributes to financial discipline.

(Action-Government)

3.8 Exporters have complained that there are delays in payment of interest subvention funds by some banks, and this in turn affects exporters leading to cost escalations. There has been suggestion that these amounts may be paid upfront by banks against reimbursement. While the Committee does not wish to take a stand in the matter taking into account issues / agencies involved, it recommends the need for a more prompt and efficient working of the scheme so that the purpose of the scheme is fully achieved.

(Action-Government/RBI/Banks)

3.9 The Committee noted that credit information report from CIBIL is considered by bankers for reassuring credit worthiness of a person or a firm. It was observed that CIBIL reports are often not updated periodically, providing misleading information,

leading to delays/denial of credit. This in turn affects cost of operations. The Committee recommends that the issues be addressed quickly, if necessary by mandating penalties on the defaulting agency for delay in providing / updating information. **(Action-RBI)**

Documentation

3.10 The Committee also felt the need for timely disposal of credit applications, especially of MSMEs; it is suggested that existing ICT platform of banks could be strengthened to receive loan applications, issue acknowledgements, enabling the customers to track the status of the application online. Such a system would help detect exceptional delays and improve transparency. **(Action-IBA/Banks)**

3.11 Revised reporting procedure of software exports to STPI and SEZs has been issued by RBI vide its circular dated February 15, 2012. This process is applicable to software exporters with a turnover of Rs. 1,000 crore or submitting at least 600 Softex forms annually. Currently, under this process, STPI will send the attested bulk Softex statement as soft copy to RBI, AD-Bank and exporter with password protection via email. All other companies not falling under the revised procedure has to submit Softex forms to banks not later than 30 days from the date of invoice. The Committee noted that delay in Softex form submission by the former category is due to delayed submission by STPI. Hence, it is recommended to expedite the computerization at STPI so that exporter, RBI, AD-Bank and STPI can be on the same platform. Alternatively, based on the success of the new softex on-line submission, the committee recommends to extend the same to the smaller software exporters. The new procedure would give impetus to the quick disposal by the STPIs/SEZs and efficient handling of the documents by the ADs leading to quicker realization of the export proceeds. Till such time the new procedure gets implemented, for all other companies, the time limit for submission of Softex forms to banks may be extended from 30 days to 60 days.

(Action-Government-STPI/SEZs and RBI)

3.12 To encourage post-shipment finance to software sector, banks may be encouraged to extend post-shipment finance based on submission of Softex form (acknowledgement copy of submission) to STPI. In case the Softex form attested by STPI is not received with 60 days of invoice, banks to recall the post shipment advance by debit to customer account with penal interest. **(Action-RBI)**

3.13 The Committee noted that at present, Project Exporters are required to submit to the bankers an application in Form TCS-1 or PEX-1 or DPX-1 in six copies, as the case may be, within 15 days of entering into the contract; since the timeline is not adhered to, most cases require RBI approval. The Committee is of the view that the timeline is too short and needs to be extended to at least 90 days. Besides, these forms require review for simplification as some of the information sought (like third party imports, sub-supplier details) are decided by the exporter over a period of time. Detailed information could be sought from the exporters within six months of signing such contracts. Similarly, DPX-3 submission to be done on a half yearly basis instead of quarterly reporting. The Committee is also of the view that the PEM, issued in 2003, needs to be revisited and/ simplified. **(Action-RBI)**

Chapter – 4
Issues relating to Financing of
Units in SEZs, Merchanting Trade, Factoring and Insurance

Issues Associated with Financing of Special Economic Zones

4.1 India was one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone model in promoting exports with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of multiplicity of controls and clearances, absence of world-class infrastructure, and to attract large scale investments, the policy for Special Economic Zones (SEZ) was announced in April 2000. The Committee looked into the issues associated with financing of SEZ units.

4.2 The Committee noted that at present SEZ/EOU/EPZ units are not eligible for any post shipment facility as the scheme does not cover sale of goods in credit terms. The Committee is of the view that post-shipment finance in foreign currency may be permitted to SEZ units for sale to another unit in SEZ/EOU/EHTP. **(Action-RBI)**

4.3 The Committee further suggests that without Recourse Factoring Facility / LC Discounting Facility offered by an *Overseas Bank/Factor/Financial Institution* (“*Overseas Institution*”) to Units situated in Special Economic Zones (“SEZ”) covering their Foreign Currency (“FCY”) sales to Units situated in Domestic Tariff Areas (“DTA”) may be allowed. A brief process note for Factoring Open Account Receivables or Discounting of Receivables under Usance Letters of Credit through an Overseas Institution is given at **Annexure – IX**. For the avoidance of doubt, the Committee would like to state that SEZ will either factor receivables under Open Credit or discount receivables covered under a Usance Letter of Credit. It could be ensured that both the structures will not be used for the same underlying commercial transaction. Both facilities shall be on a without recourse basis to the SEZ. **(Action-RBI)**

Issues Associated with Merchanting Trade

4.4 Merchant trade transactions do not contribute to the exports from India, the transactions result in net foreign exchange inflow, thus various issues related to this trade are included in the scope of this Report.

4.5 As per the current guidelines, entire Merchanting trade transaction needs to be completed within a period of 6 months. However, in certain circumstances extended time would be required to manufacture and ship the goods as per the agreement between the parties to the transaction. Hence, in order to liberalize the procedure, extension of time period upto 9 months to complete both the legs of the Merchanting trade transaction is recommended, subject to the export leg of the transaction covered under Letter of Credit and fulfillment of other required conditions (including but not limited to KYC checks, performance of transaction in line with the agreement / contract). Such extended realization is recommended only under Letter of Credit structures, thereby providing scrutiny of documents by AD banks in India prior to effecting payments, to ensure that the performance is in line with the agreement/contract. Also, for such extended realization cases, foreign exchange outlay may be allowed upto **four months.** **(Action-RBI)**

4.6 Globally there is no specific restriction for completion of Merchanting trade transactions within 6 months and this step will help exporters / traders to execute such transactions faster without seeking transaction specific approval from RBI. The foreign exchange outlay period may also be extended to four months. Goods imported and unloaded in the custom warehouse for export to be treated as merchanting trade. Relevant guidelines to this effect needs to be issued. **(Action-RBI)**

4.7 The Committee noted that developing countries (Across Asia Pacific region) do not have any specific restrictions with respect to financing Merchanting trade transactions. However, in India, as per the extant guidelines, short-term credit either by

way of suppliers' credit or buyers' credit or post shipment finance is not available for Merchanting trade or intermediary trade transactions. The Committee further noted that significant extent of Merchanting trade transactions are entered by exporters/traders in automobile, pharmaceuticals and industrial goods sectors, and hence short term financing (Under Letter of credit) may be allowed for such transactions. **(Action-RBI)**

4.8 Present regulations are silent with respect to advance against export and payment of advance against import for Merchanting trade transactions. Receipt of advance against export may be allowed subject to the condition that in case the export does not happen as per the desired period of the agreement, the said advance needs to be repatriated back. Payment for advance against import may be allowed provided there is adequate safeguard for import performance, such as guarantee from an international bank. **(Action-RBI)**

4.9 Goods covered under Merchanting trade should be allowed to be exported/imported into the country as per the prevailing Foreign Trade Policy (FTP) at the time of entering into the contract with the overseas suppliers, in order to avoid entering into trading contracts that are not permitted to be imported/exported under the FTP. To safeguard the interest of the exporter, the export leg of the transaction can be recommended to be covered by Letter of Credit (or) through insurance from ECGC.

(Action-RBI)

Factoring and Insurance

4.10 Export Credit Insurance supports exporters and financiers in ensuring flow of credit to exports. The Committee noted that IRDA (vide its Press Release dated December 13, 2010) has disallowed insurers to issue trade credit policies favouring banks/financiers/lenders or where banks are beneficiary of the claims or where proceeds are assigned in favour of bank. The Committee is of the view that this policy be reviewed with a view to permitting issuance of trade credit policies by insurers in favour of banks/financiers/lenders. **(Action-IRDA/RBI)**

4.11 The Committee noted that Factoring is done on a non recourse basis in most of the markets and the Factoring companies are able to do this on the back of Credit Insurance. The Committee also noted that credit insurance facility was available for Factoring in India, until the recent past. In 2010, IRDA has issued a circular (No IRDA/NL/CIR/159/09/2010 dated 27th September 2010) preventing all General insurance Companies (except ECGC) to sell credit insurance to the Banks and NBFCs. As per IRDA, the cover under these policies appears to be in the nature of “credit default insurance”, and therefore felt the need for “different regulatory treatment”. The Committee further noted that credit insurance policy is still available to the exporters to cover the buyer risk; however, the said policy cannot be assigned or endorsed to any third party (Banks / Factoring Companies). The Committee felt that with the help of availability of Insurance, the exporters will be able to secure financing. Hence, the Committee recommends IRDA to revisit the policy and permit issuance of credit insurance policy to the Factoring company. The Committee noted that the following benefits would accrue to the exporters in case of direct export factoring:

- Buyer risk covered (Protracted default & Insolvency)
- Non submission of Turnover declaration by exporter.
- Not to keep a track about insurance premium
- No hassle of notification and claim lodgement with Insurance company (on buyer default)
- No follow up with Insurance Company for renewal, new limits (buyer addition).

(NB: All the above activities are undertaken by the Factoring company).

(Action-IRDA; also refer para 2.21 of the Report)

4.12 A typical structure of approval mechanism and process flow of Direct Export Factoring done on the backing of Credit Insurance in international markets is given at **Annex - X**.

4.13 The Committee observed that ECGC issues various types of policies to the exporter, but these policies are not assigned or endorsed to any third party. Due to non-

assignment, the Factoring Company does not have any control over the policy. In view of this, the Committee recommends that ECGC should design a policy for Factoring companies for post-shipment financing, as the above circular of IRDA should not be applicable to ECGC. With the availability of ECGC cover to the Factoring Company, Exporter will also be benefited as both the facilities, such as financing and credit protection, will be made available under one single roof. The process flow could be similar as shown in the case of Direct Export Factoring backed by Credit Insurance as given in **Annex - X**.

(Action-IRDA/ECGC)

4.14 The Authorised Dealer (AD) licence issued by RBI to Factoring companies restricts the export factoring (cannot be done on a non-recourse basis). There are associations of International Factoring Companies, like Factors Chain International (FCI), International Factors Group (IFG), which help factoring companies/banks across the globe to conduct Factoring business. An illustration on how export factoring works under FCI network is given at **Annex - XI**.

4.15 Similar to the Credit Insurance, the payment risk of the buyer (importer) is covered by the Import Factor (FCI Correspondent Factor). Here, the added advantage is that the collection is also undertaken by the Import Factor locally and can be far effective thus taking care of the different time zone and language issues. Also the risk coverage is generally 100% as compared to the 80 – 90% offered by Credit Insurer. Thus, RBI may consider allowing non-recourse Factoring to be undertaken by Factoring Companies/Banks.

(Action-RBI)

4.16 The Committee observed that increasingly in the international market, more and more banks are developing a Factoring capability, either through specialised subsidiaries or through specialised divisions/departments. In India, as per RBI's Master Circular on Para-Banking activities, the banks should maintain a balanced portfolio of equipment leasing, hire purchase and factoring services vis-à-vis the aggregate credit. The Factoring approach to risk management is fundamentally different from the way

banks assess traditional financial products. Through Factoring, against the purchase of invoices, the funding is far more secure than in cases where other forms of collateral are used to provide security for traditional bank lending. Thus, it is felt that with the recent introduction of 'The Factoring Regulation Act, 2011', the factoring activities may be considered for exclusion from the Para-Banking activities. **(Action-RBI)**

4.17 New Export Realization Monitoring Procedure : A Working Group on Export Reporting and Follow up was constituted to look into the various problems relating to export reporting including huge unmatched GRs. Report submitted by this Working Group is under implementation.

Under the above system, all the data will flow first to a "Dedicated server of RBI" (which will contain master data on exports) and thereafter pushed by RBI to the AD banks through a fresh "Secured RBI website" for further follow up by the AD banks with exporters. Subsequently, the documents submission and realisation data will be reported back by the AD banks to RBI through the same "Secured RBI Website" so as to update the RBI database on real time basis to facilitate quicker follow up / data generation / policy formulation by RBI regarding export. This will involve 'two way' traffic of data to and from a separate server at RBI without interfering in any way with the dedicated RBI server. Data flow would be continuous.

With the system allowing for sophisticated editing and subsequent corrections, there would be improvement in monitoring/ regulatory exercise. It would ensure enforcement of laws relating to export, reduce duplicate reporting to multiple agencies, and improve customer service. It would also ensure effective follow-up of large value transactions/ transactions of serious nature.

The exporters would be benefitted from the new system for the fact that they have to approach single AD for submission of the documents, finance and export facilitations. The system will reduce the transaction time and increase the efficacy of the system.

4.18 Responsibility of exporters with respect to for export realization : The committee observed that while exporters have been clamouring for various concessions, they have not been always meticulously following with their customers

abroad for repatriation of export dues. Consequently as on December 2012, the total export outstanding beyond one year was Rs. 681,536,036,465.59.(Annex-XII). This is a matter of concern more so at a time when the country is running a huge current account deficit. The committee recommends concerted action by all the agencies to bring about substantial improvement in the position. Optimistic of such outcome, the committee decided to not to suggest measures like rear ending of sops to exporters i.e. sops to be based on export realization rather than export performance to tackle the situation.

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ACTION MATRIX

ACTION TO BE TAKEN BY	PARA NUMBERS
RESERVE BANK	2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.13, 2.17, 2.21, 2.22, 2.25, 2.26, 2.28, 2.29, 2.30 3.2, 3.3, 3.4, 3.6, 3.8, 3.9, 3.11, 3.12, 3.13 4.2, 4.3, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 4.15 and 4.16
GOVERNMENT	2.5, 2.8, 2.10, 2.11, 2.12, 2.14, 2.15, 2.16, 2.23, 2.24, 2.28, 3.1, 3.7, 3.8 and 3.11
IRDA	2.17, 2.18, 4.10, 4.11 and 4.13
IBA	2.29 and 3.10
FEDAI	3.5 and 3.6
ECGC	2.18, 2.19 and 4.13
BANKS	2.27, 3.8 and 3.10
NO ACTION	2.1, 2.20, 4.1, 4.4, 4.12, 4.14, 4.17, 4.18 and 4.19

Annex – I

List of Persons who were associated with the Technical Committee

Sl. No	Name	Designation	Organisation
1	Shri G Padmanabhan	Executive Director and Chairman of the Committee	Reserve Bank of India
2	Shri David Rasquinha	Executive Director	Export-Import Bank of India
3	Shri Prahalathan Iyer	Chief General Manager	
4	Shri Rafeeqe Ahmed	President	FIEO
5	Shri Amit Goyal	Chairman (WR)	
6	Shri Rajesh Bhatia	Director (WR)	
7	Shri K Unnikrishnan	Deputy Chief executive	Indian Bank' Assn.
8	Shri Dilip Patwardhan	Chief Executive	FEDAI
9	Shri N S Venkatesan	Chairman	FIMMDA
10	Shri Pankaj Chadda	Regional Chairman	EETPC-India
11	Shri Rajat Srivastava	Regional Director	
12	Shri V Dharmarajan	General Manager	ECCG
13	Shri Loknath Mishra	General Manager	ICICI Bank
14	Smt. Nandini Bhattacharya	Jt. General Manager	
15	Ms. Nita Chavan	Asst. General Manager	
16	Shri N S Kujur	Chief General Manager	State Bank of India
17	Shri Sunit Joshi	Chief General Manager	
18	Shri Manoj Dugar	Managing Director	Citi Bank India
19	Shri Amareesh Gulati	Managing Director	Standard Chartered Bank – India
20	Shri S K Sangar	General Manager	Union Bank of India
21	Shri Vinod George	President	Axis Bank
22	Shri Manoj Kumar Singh	COO	SBI Global Factors

23	Shri Milind Nare	CFO	India Factoring Services
24	Shri Ganesh Nalawade	Sr. Vice President	
25	Smt. Rashmi Fauzdar	Chief General Manager, FED	Reserve Bank of India
26	Shri P C Sahoo	Chief General Manager, DBOD	
27	Shri Vivek Deep	General Manager, DBOD	
28	Shri Rajan Goyal	General Manager, DEPR	
29	Shri P K Kar	Deputy General Manager, FED (Trade)	
30	Smt. Anita Mehta	Asst. General Manager, FED (Trade)	

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Annex - II
Terms of Reference of Technical Committee

The Terms of Reference of the Technical Committee are as under:

- i. to review the existing policies/procedure relating to bank finance for exports and suggest measures to improve timely, adequate and hassle-free flow of credit towards working capital, capital expenditure and other requirements of the sector, and, particularly for the units in the SME sector;
- ii. to evaluate and suggest ways for improving financial support to the export sector from alternative sources like factoring, interest subvention, export advance from the external sources, etc.;
- iii. to assess the efficacy of the schemes/facilities of the export supporting bodies like the EXIM Bank, ECGC and suggest changes, if any in such schemes/facilities;
- iv. to examine and suggest measures to rationalize/reduce the transaction cost including bank charges and payment of other statutory fees, so as to improve transparency and certainty in the dealings of exporter clients with banks/other institutions;
- v. to suggest measures to simplify and rationalize the existing procedure including the documentation, etc., requirements for availing of various facilities and compliance with the requirements under Foreign Exchange Management Act (FEMA);
- vi. to examine specifically the special needs of exporting units located in SEZ, merchanting trade;
- vii. to review the process of realisation/repatriation of export proceeds in a timely manner, including the use of new methods of receipts like the online payment gateways;
- viii. to suggest further measures for risk mitigation for the exporters including use of hedging instruments, smoothening the accounting issues, if any, relating to hedging, invoicing of exports in Indian Rupee;

- ix. to specifically examine the existing capabilities and the emerging requirement of the system and the staff of the banks, financial /other connected institutions dealing with the export sector; and
- x. to examine any other related matter/issue for improvement of the services/facilities being extended to the exporters.

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Annex - III

Various Steps Necessary to Securitize Trade Credit

- i. Creating a market in securities with trade credit as the underlying assets requires regulatory and taxation clarity regarding securitization of revolving assets through the SPV route. The current RBI guidelines do not include securitization of revolving credit. The current RBI guidelines are unclear whether the FIIs can invest in securitized assets. Need revised guidelines explicitly permitting it.
- ii. BoEs issued by large firms against goods received from SMEs are essentially commercial paper with the high credit ratings of the large firms. The transactions costs in getting the papers accepted by financial institutions and then selling them are important barriers to a secondary market in BoEs. Therefore, measures that will dematerialize them and enable them to trade in a similar way to commercial papers are necessary.
 - a. An organization like NSDL should provide dematerialization capability.
 - b. The existing exchanges and reporting mechanisms (NSE/BSE/CCIL) should be used to trade and settle these instruments
 - c. Additionally, since most of these instruments are not rated, a formal rating program along the lines of commercial papers should be instituted to enhance secondary market tradability.

Necessary guidelines need to be accordingly framed and issued.

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Annex – IV

Export Credit by an Overseas Bank Against LOU / LOC – Proposal

Particulars	Parameter
Transaction ceiling	USD 20 million per transaction for post shipment/drawdown for pre-shipment. This maybe enhanced to USD 50 million for oil linked exports based on AD comfort with respect to client.
Period	Not exceeding one year from date of disbursement at any point of time (In line with the working capital cycle of the exporter)*
Pricing	All-in-cost ceilings over 6 months LIBOR (for the respective currency of credit or applicable benchmark)+ 350 bps
Repayment of pre shipment finance	<ul style="list-style-type: none"> • Export bills purchased / discounted • Export bills realized • Rupee packing credit / rupee post shipment finance**
Repayment of post shipment finance	<ul style="list-style-type: none"> • Export bills realized • Rupee post shipment finance • Crystallisation of export bill in India
Reporting	AD banks are required to furnish details of approvals, drawal, utilisation, and repayment of export credit granted by all its branches, in a consolidated statement, during the month, in form TC to the Director, Division of International Finance, Department of Economic Policy and Research, Reserve Bank of India, Central Office Building, 8th floor, Fort, Mumbai – 400 001 (and in MS-Excel file through email) so as to reach not later than 10th of the following month. Each export credit may be given a unique identification number by the AD bank.

** Pre-shipment credit under the LuT route should be permitted for an additional period of 30 days beyond the stipulated tenor (stipulated tenor is the assessed tenor based on the working capital cycle) to allow flexibility for any technical delay in shipment. Upon shipment, the export proceeds realized/discounted may be parked in the EEFC account. The same should be then applied towards repayment of the pre-shipment loan on due date to the foreign lender. This additional 30-day period would not attract penal rate of interest.*

***In the event that the export (shipment) is extended beyond the due date of the pre-shipment loan in foreign currency, roll over of the loan will be permitted or the same can be liquidated with rupee pre-shipment credit extended by a bank in India (in case rollover is not possible).*

- In case pre-shipment has been availed under this route and exports do not materialize at all, banks in India should charge relative rupee lending rate plus penal interest on the loan from the date of advance. This penal interest would not be remitted outside India and would be retained by banks in India. Penal interest guidelines would be left to the discretion of banks.
- Applicant to submit the application for direct financing by overseas bank / financial institution through designated AD banks in India.
- AD Banks will not be eligible for refinancing from RBI against the pre-shipment credit in foreign currency loan financed by an overseas bank (based on an LuT from an AD in India).
- Export finance outstanding under this route to form a part of the quarterly data submitted by the banks to Reserve Bank of India, for reviewing the performance of banks in achieving an outstanding export credit equivalent of 12% of each bank's Adjusted Net Bank Credit (ANBC).

Annex - V

Note on Tax Rates in Singapore and Sri Lanka

Singapore – Tax Rates

- To encourage companies to make Singapore as their International Headquarters, the Government of Singapore offers a concessionary rate of 10% or lower as compared to the current corporate tax rate of 17%. However, the personnel hired for headquarters operations should be based in Singapore and can include management, professionals, technical and support staff.
- The Government has launched the Global Trader Program to encourage global trading companies to use Singapore as their base to conduct all trade activities from procurement to distribution. Under this scheme, an approved global trading company is granted concessionary tax rates of 5%-10% for 5-10 years on qualifying offshore trade incomes, depending on the company's turnover and business spending. Tax rate reduces to 5% from 17% if local spending (salaries, interest etc.) is more than USD 40.0 mn. Tax rate reduces to 10% from 17% if local spending (salaries, interest etc.) is more than USD 3.0 mn.

Sri Lanka – Tax Rates

The Sri Lankan Government offers concessionary rates or exemptions on income tax to exporters depending on their industries.

- An exporter engaged in agriculture, agro processing, industrial and machine tool manufacturing, machinery manufacturing, electronics, export of non-traditional products or information technology and allied service is exempted from income tax for a period of 3 – 5 years from the year of commencement and tax slabs of 5% to 15%, applied thereafter.
- A company/individual exporting textiles, leather products, footwear and bags is exempt from income tax.

- A company/individual exporting gold, gems and jewellery is exempt from income tax.
- Any garment manufacturer approved by the Textile Quota Board (TQB) which supplies services of sewing any garment or assembly of any garment or any other service which adds value to the garment, to any exporter registered with the TQB is taxed at 15%.
- Any consignor or consignee engaged in entrepot trade is taxed at 10%.
- Any company or a partnership resident in Sri Lanka carrying on or exercising professional services outside Sri Lanka is exempt from income tax.
- Any royalty received in foreign currency by any person resident in Sri Lanka from outside Sri Lanka, if such royalty is remitted to Sri Lanka through a bank in Sri Lanka, is exempt from income tax.
- Any Export Development Rebate paid by the Export Development Board is exempted from income tax (for any exporter).
- Any grower or manufacturer of tea who has established a joint venture with a tea exporter for exporting pure Sri Lankan tea in value added form with a Sri Lankan brand name is taxed at 12%.

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Annex – VI

Note on Singapore - Double Tax Deduction

The Double Tax Deduction Scheme for Internationalization (DTD) in Singapore encourages companies to expand overseas. It allows approved companies to deduct against their taxable income, twice the qualifying expenses incurred for qualifying activities.

The qualifying activities and expenses include:

- designing packaging for overseas markets
- certification of products/services for overseas markets
- overseas market survey/feasibility study
- participating in overseas trade missions/market development trips
- exhibiting in approved trade fairs locally and overseas
- printing of corporate brochures for distribution in overseas markets
- overseas advertising and promotional campaigns
- setting up of overseas marketing offices
- promoting your master licence and franchise overseas

Companies have the option to submit their DTD without prior approval from International Enterprise (IE) Singapore or Singapore Tourism Board (STB) for the 4 qualifying activities below, subject to a cap of S\$100,000 per year of assessment:

- Overseas business development trips
- Overseas investment study trips/missions
- Overseas trade fairs
- Local trade fairs approved by IE Singapore or STB

Expenditures exceeding S\$100,000 will continue to require approval from IE or STB.

An example on how DTD works:

Company A spends S\$10,000 (e.g. travel and stand rental/construction expenses) on overseas trade fair. Upon qualifying for DTD, the approved company can enjoy tax

savings through a further tax deduction if the expenses are deductible under Section 14 of Income Tax Act.

Description	Company without DTD (S\$)	Company with approved DTD (S\$)
Revenue	100,000	100,000
Less: DTD qualifying expenses (e.g. travel and stand rental/construction expenses)	(10,000)	(20,000)
Less: Other operating expenses	(30,000)	(30,000)
Taxable profit	60,000	50,000
Tax payable @ 17% in YA 2011	10,200	8,500
Savings with DTD Scheme	N.A.	1,700

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Annex - VII

Procedure for setting up of CFS/ICDs & implementation

1. Proposals for setting up ICD/CFS will be considered and cleared, on merits, by an Inter-Ministerial Committee for ICDs/CFSs, which consists of officials of the Ministries of Commerce, Finance (Department of Revenue), Railways and Shipping. Views of the State Governments as necessary would be obtained
2. Application 10 copies in enclosed form should be submitted to the Infrastructure Division in the Ministry of Commerce, Udyog Bhavan, New Delhi. Application must be accompanied by 10 copies of feasibility reports mentioned in the guidelines
3. The applicant should also send a separate copy of the application to the jurisdictional Commissioner of Customs. The Commissioner of Customs will send his comments to the Ministry of Commerce and the Central Board of Excise & Customs (CBEC) within 30 days. In case, the project is planned in a port town, a copy of the proposal should also be sent to the concerned Port Authority who would furnish their comments within 30 days to the Ministry of Surface Transport and the Ministry of Commerce
4. The applicants are also requested to familiarize with the statutory Custom requirements in relation to Bonding, Transit Bond, Security Insurance and other necessary procedural requirements and cost recovery charges payable before filing the application
5. On receipt of the proposal, the Ministry of Commerce would take action to obtain the comments from the jurisdictional Commissioner of Customs and other concerned agencies within 30 days. Wherever necessary, a copy of the proposal should also be sent to Zonal Railway Manager, under intimation to the Ministry of Railways One copy of the proposal would also be made available to the IMC Members for advance action. The decision of the IMC would be taken within six weeks of the receipt of the proposal under normal circumstances
6. On acceptance of a proposal, a Letter of Intent will be issued to the applicant, which will enable it to initiate steps to create infrastructure

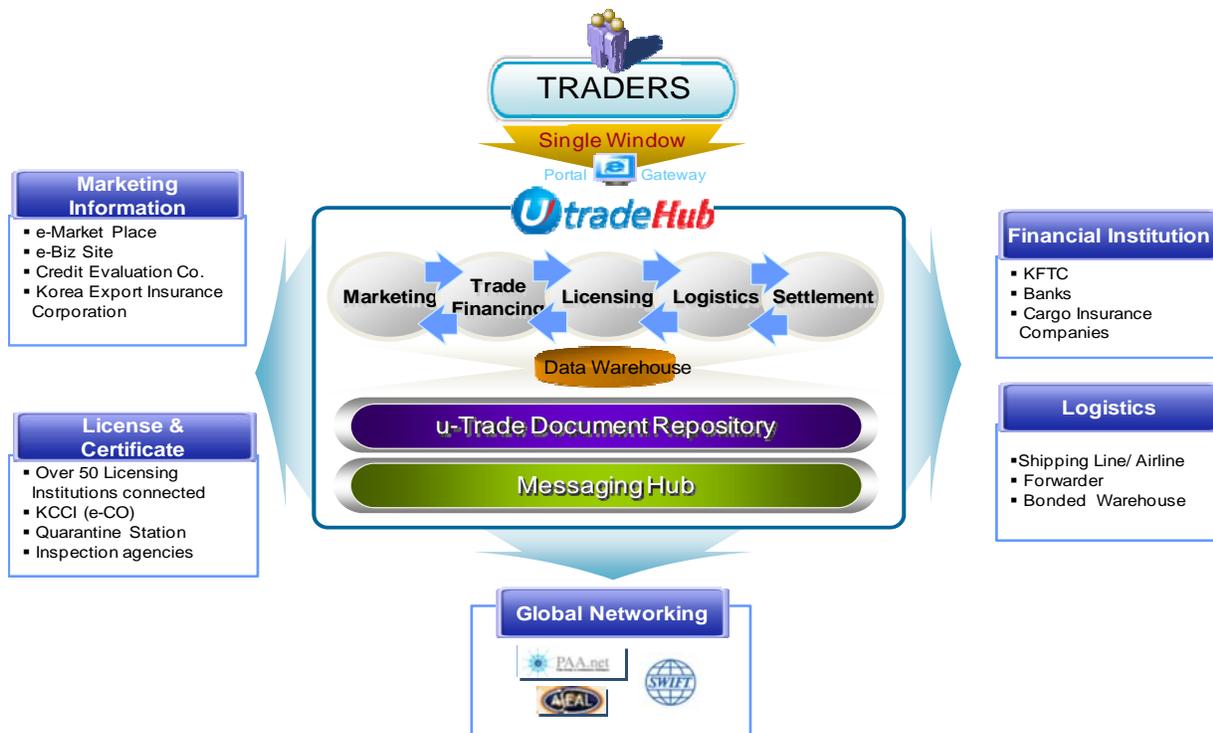
7. The applicant would be required to set up the infrastructure within one year from the date of approval. The Ministry of Commerce may grant an extension of six months keeping in view the justification given by the party. Thereafter, a report would be submitted to IMC to consider extension for a further (final) period of six months. The IMC may consider extension or may submitted to IMC to withdraw the approval granted
8. The applicant, after receipt of approval, shall send quarterly progress report to Ministry of Commerce. Three formats (given as annexure I to III) for sending the quarterly/ annual report shall have to be submitted to Department of Commerce through electronic mode as well as through hard copy
9. After the applicant has put up the required infrastructure, met the security standards of the jurisdictional Commissioner of Customs and provided a bond backed by bank guarantee to the Customs, final clearance and Customs notification will be issued
10. The approval will be subject to cancellation in the event of any abuse or violation of the conditions of approval
11. The working of the ICD/CFS will be open to review by the Inter Ministerial Committee

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Annex –VIII

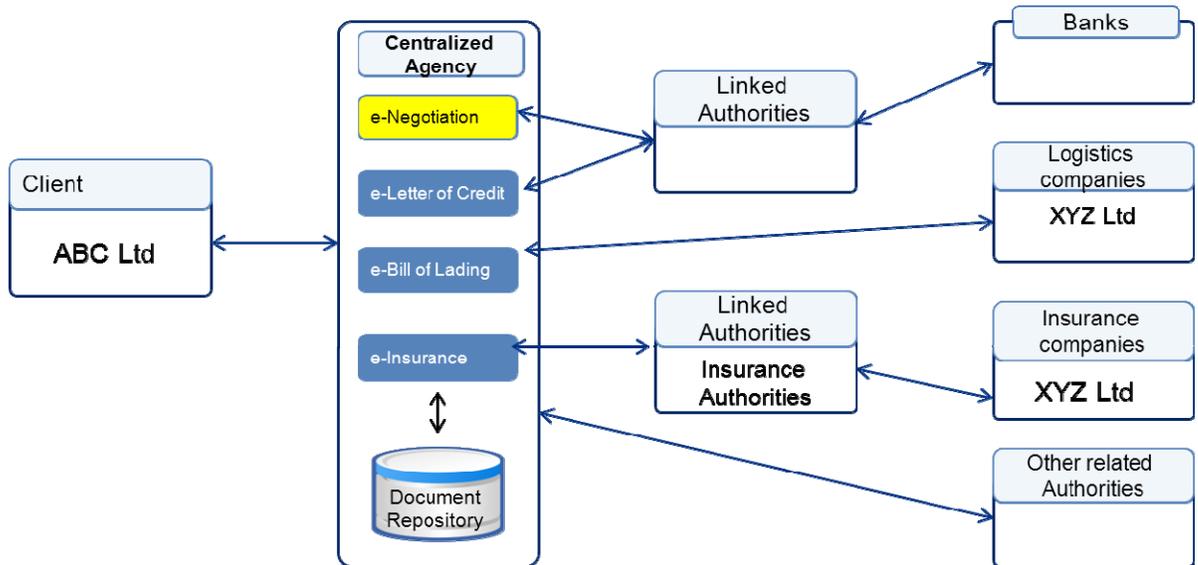
Single Window Trade Model in South Korea

The Ministry of Knowledge Economy, South Korea, and the Korea International Trade Association (KITA) carried out a project to build "e-Trade (paperless trade) services" in Korea as a part of the "e-Government agenda". As a first phase, "U-Trade Hub" was formed. This was sponsored by the KITA to oversee the e-Governance agenda, including review of overall trade affairs ranging from marketing to settlement by linking networks of trading related entities for each process, such as Korea Financial Telecommunications and Clearings Institute (KFTC Clearing house), Korea Customs Service, Korea Chamber of Commerce and Industry, Insurance companies and logistics companies.



Under the second phase, Korean banks will connect with KFTC to provide Korean exporters with L/C advice and discounting services through the U-Trade Hub. This discounting service is called "e-Nego". This e-Nego system is ready now for

commercialization and currently testing this system through a pilot customer is in progress.



Key Advantages

- Single link between Exporter and various authorities including banks
- Digitization & reduction of document clearance time
- Helps reduce time to export and cost to export by making it par with other developing countries

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Annex – IX

Factoring/Discounting of Receivables under Usance Letter of Credit of FCY denominated SEZ Receivables from DTA Unit by an Overseas Institution:

A SEZ Unit as per the SEZ Act, 2005 is treated to be a special notified territory excluded from a domestic tariff area of India. Also, the SEZ Rules 2006 (Chapter VI 53(n)) permit a SEZ Unit to invoice and receive payments in foreign currency from DTA in order to be compliant with the SEZ Rules of being net Foreign Exchange earner.

The buyer in DTA is also required to pay customs duty on the goods procured from the SEZ Unit just like in the case of imports.

Since the SEZ Unit is treated as a special notified territory excluded from the domestic tariff area of India, we seek your support to enable the SEZ client to have the option to Factor receivables OR Discount receivables under Usance letter of Credit in FCY from an Overseas Institution. This shall enable the SEZ Unit to avail of lower cost of FCY financing from a larger pool of banks.

Steps and Diagrammatic Representation of the Transaction

Factoring of Receivables / Discounting under Usance Letter of Credit by an Overseas Institution

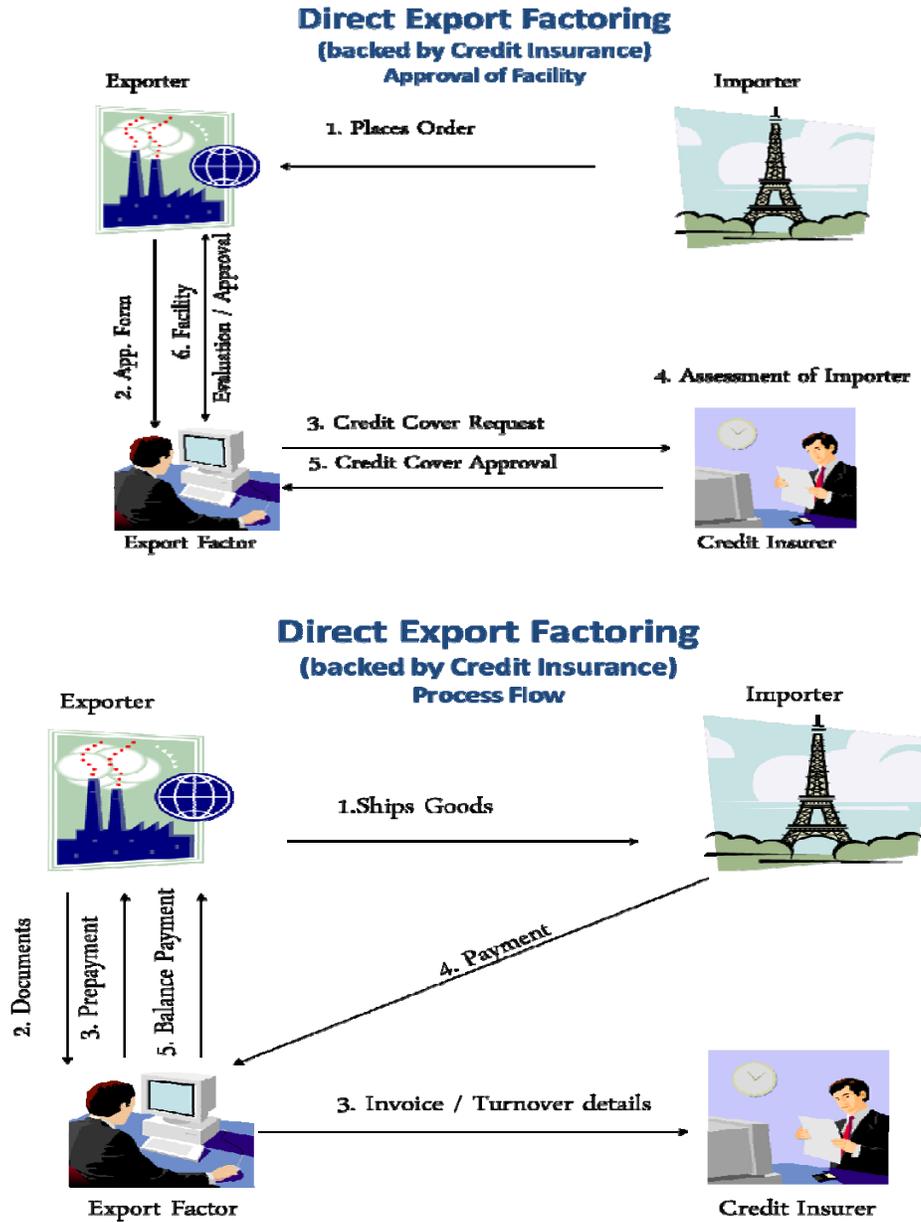
1. Special Economic Zone Unit (“**SEZ**”) sells goods/services to Domestic Tariff Area Unit (“**DTA**”) on credit terms as per Contract between them.
2. As permitted under the current regulations [**SEZ Rules 2006 (Chapter VI 53(n))**] the SEZ unit would be raising the invoice in Foreign Currency (“**FCY**”) and the DTA units would be making the payments in FCY [**A.P. (DIR Series) Circular No.105**] on the due dates.

3. Overseas Institution shall enter into an arrangement with SEZ Unit under which they would purchase/negotiate such receivables and instruct the DTA Units to pay the Overseas Institution in FCY, on the due date.
4. Overseas Institution would require to appoint an AD bank who shall only play the role of ensuring regulatory compliance of the underlying trade transaction.
5. Overseas Institution will then credit the discounted purchase value of the Invoice / Letter of Credit in FCY into the FCY bank account of SEZ Unit.
6. On due date of invoice / maturity date of Letter of Credit, DTA Unit shall pay the FCY amount due to Overseas Institution directly or through Overseas Institution's duly appointed authorized collection agent which in this case can be the SEZ Unit for operational ease.
7. Overseas Institution shall use these proceeds to liquidate the FCY asset.

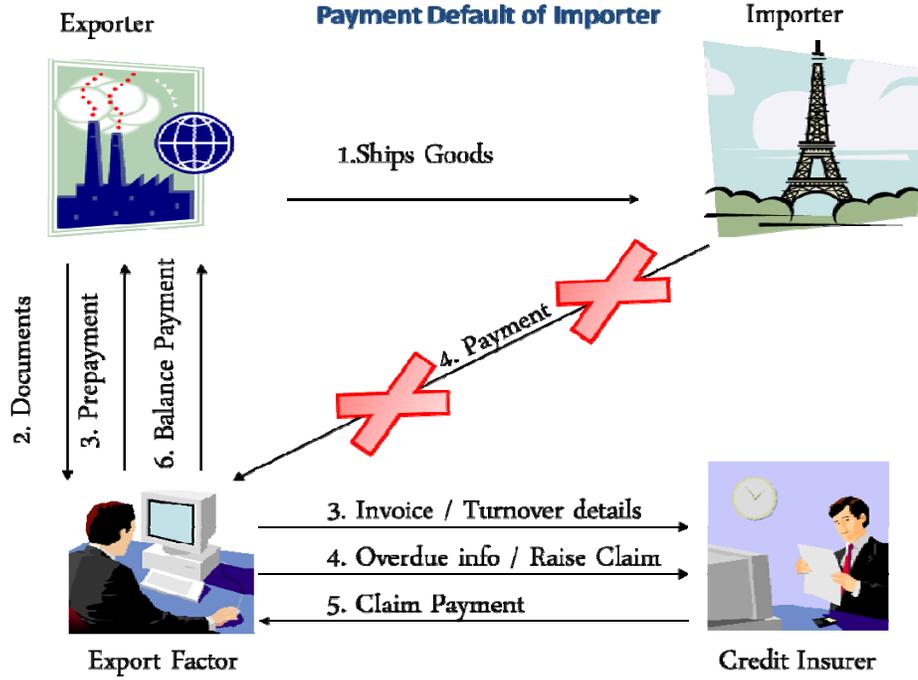
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Annex – X

Typical Approval and Process Flow Structure for Direct Export Factoring with the Backing of Credit Insurance in International markets.

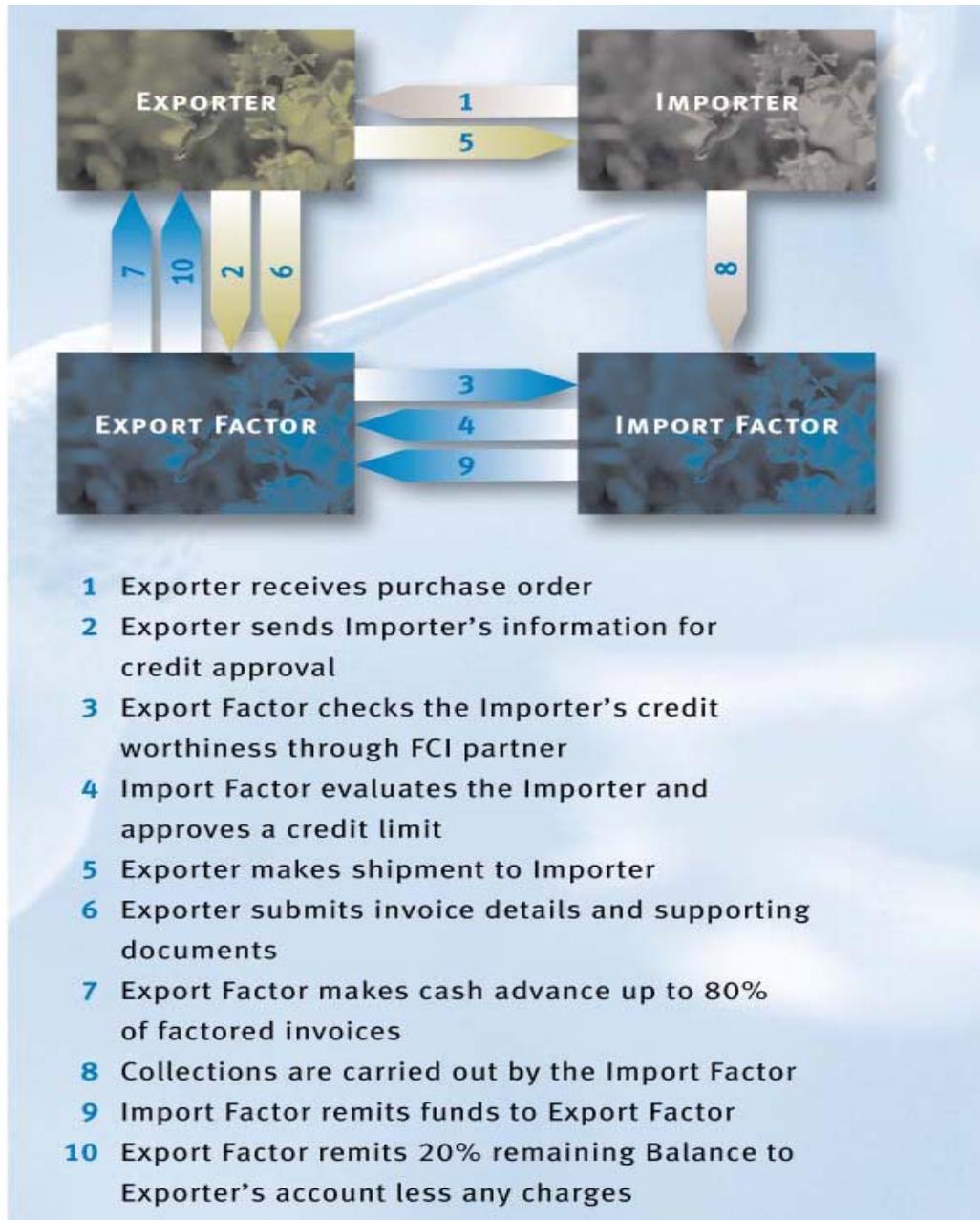


Direct Export Factoring (backed by Credit Insurance) Payment Default of Importer



Annex – XI

Illustration on How Export Factoring Works Under FCI Network



ANNEX-XII**XOS Outstanding – Position as on 31 December 2012**
**FOREIGN EXCHANGE DEPARTMENT
CENTRAL OFFICE, TRADE DIVISION**
Statement Showing Outstanding Export Bills RO wise/age wise as on 31/12/2012

Sr No	Name of Regional Office	Age less than 1 year	Age between 1 to 2 years	Age between 2 to 5 years	Age more than 5 years	Total
1	Ahmedabad	11,840,869,800.54	12,246,929,725.26	24,238,056,717.91	10,396,454,537.36	58,722,310,781.07
2	Bangalore	11,860,498,314.79	7,672,677,409.88	9,055,756,670.24	4,455,197,870.76	33,044,130,265.67
3	Bhopal	458,617,588.92	1,114,242,642.41	520,253,317.50	660,440,417.04	2,753,553,965.87
4	Bhubaneswar	10,269,461.00	51,943,733.07	19,237,160.81	33,097,794.26	114,548,149.14
5	Chandigarh	2,349,678,449.66	4,854,128,958.91	5,932,622,630.69	4,439,355,979.29	17,575,786,018.55
6	Chennai	19,116,185,150.91	16,066,519,170.30	30,990,550,806.87	22,451,365,874.97	88,624,621,003.05
7	Guwahati	0.00	0.00	0.00	1,744,400.00	1,744,400.00
8	Hyderabad	9,516,507,630.72	7,699,519,155.97	8,598,559,979.04	3,808,701,761.30	29,623,288,527.03
9	Jaipur	2,120,392,461.28	1,674,676,016.63	2,263,608,157.42	2,323,459,246.87	8,382,135,882.20
10	Kanpur	528,270,132.45	786,690,129.86	1,262,639,936.19	4,413,014,967.81	6,990,615,166.31
11	Kochi	609,895,932.60	834,130,368.78	1,049,162,547.58	1,585,087,716.90	4,078,276,565.86
12	Kolkata	7,852,113,899.29	12,960,115,074.17	13,429,180,868.01	10,533,486,303.03	44,774,896,144.50
13	Mumbai	128,115,509,194.54	133,740,764,463.18	178,805,708,534.35	80,242,211,846.77	520,904,194,038.84
14	New Delhi	35,556,335,532.15	20,223,865,011.57	24,183,626,882.06	15,413,410,359.34	95,377,237,776.12
15	Panaji	122,489,562.26	100,866,708.33	239,104,160.20	128,467,946.58	590,928,377.37
16	Patna	22,275,091.03	25,842,380.60	5,257,125.52	4,303,000.00	57,677,597.15
	Total	230,079,908,193.14	220,052,910,948.92	300,593,325,494.39	160,889,800,022.38	911,615,944,658.73