A STUDY ON ROLE OF EXIM BANK IN EXPORT TRADE

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ABSTRACT

The Export-Import Bank of India (Exim Bank of India) is India’s national Export Finance Institution, fully owned by the Government of India. The Bank is engaged in financing, facilitating and promoting India’s two-way international trade and investment, and seeks to enhance the international competitiveness of Indian enterprises. Recognizing the dynamics of international trade, Exim Bank of India’s vision has evolved beyond providing export credit to a conscious, systematic effort at creating international competitiveness capabilities by arranging competitive finance and services at all stages of the business cycle.

Key words: Exim Bank, Export finance, policies, credit, Pre-Shipment, Post-Shipment.

INTRODUCTION

Export-Import Bank of India is the premier export finance institution of the country, set up in 1982 under the Export-Import Bank of India Act 1981. Government of India launched the institution with a mandate, not just to enhance exports from India, but to integrate the country’s foreign trade and investment with the overall economic growth. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Export finance and credit are the most important non-pricing techniques like quality, packaging and delivery to export more. Competition both for consumer and capital goods is getting intensified in world markets. There is now a buyers market allover where the buyer dictates intensified terms not only in regard to price but also quality, packaging, delivery schedule and above all on appropriate credit terms. Credit is also partly asked for by overseas buyer on account of difficult money market position and also foreign exchange problems faced in many countries, particularly the developing world. The
buyer’s (importer’s) choice of supplier (exporter) is influenced by the credit offered by the latter. Export credit has become an important tool of export promotion in countries like India. Even the developed countries like United States, Germany and Japan are developing comprehensive systems and institutions for providing finance to their exporters.

**NEED FOR THE STUDY**

- To know the perception and consumption of exporters towards Exim bank finance and services.
- To analyze the role of EXIM in providing guarantee to exporters.
- To study the different types of credit facilities provided to exporters by bank.

**POLICIES OF EXIM BANK**

**EXIM BANK FINANCING PROGRAMMES**

Exim Bank is fully owned by the Government of India and is managed by the Board of Directors with repatriation from Government, financial institutions, banks and business community. The Export-Import Bank of India (Exim Bank) provides financial assistance to promote Indian exports through direct financial assistance, overseas investment finance, term finance for export production and export development, pre-shipping credit, buyer's credit, lines of credit, relending facility, export bills rediscounting, refinance to commercial banks. The Exim Bank also extends non-founded facility to Indian exporters in the form of guarantees. The diversified lending programme of the Exim Bank now covers various stages of exports, i.e., from the development of export makers to expansion of production capacity for exports, production capacity for exports, production for exports and post-shipment financing. The Exim Bank's focus is on export of manufactured goods, project exports, exports, of technology services and exports of computers software.
POLICIES OF EXIM BANK

**Loans to Indian Companies**
Term finance is provided to Indian exporters of eligible goods and services which enable them to offer deferred credit to overseas buyers. Deferred credit can also cover Indian consultancy, technology and other services. Commercial banks participate in this programme directly or under risk syndication arrangements.

**Preshipment Credit**
Finance is available from Exim Bank for companies executing export contracts involving cycle time exceeding six months. The facility also enables provision of rupee mobilization expenses for construction/turnkey project exporters.

**Term Loans for Export Production**
Exim Bank provides term loans/deferred payment guarantees to 100% export. Oriented units, units in free trade zones and computer software exporters. In collaboration with International Finance Corporation. Exim Bank provides loans to enable small and medium enterprises upgrade export production capability. Facilities for deeded exports; Deemed exports are eligible for funded and non-funded facilities from Exim Bank.

**Overseas Investment Finance**
Indian companies establishing joint ventures overseas are provided finance towards their equity contribution in the joint venture.
FINANCE FOR EXPORT MARKETING: This programme, which is a component of a World Bank loan, helps exporters implement their export market development plans.

LOANS TO FOREIGN GOVERNMENTS, COMPANIES AND FINANCIAL INSTITUTIONS

OVERSEAS BUYER'S CREDIT: Credit is directly offered to foreign entities for import of eligible goods and related services, on deferred payment.

LINES OF CREDIT: Besides foreign governments, finance is available to foreign financial institutions and government agencies to on-lend in the respective country for import of goods and services from India.

RELENDING FACILITY TO BANKS OVERSEAS: Relending facility is extended to banks overseas to enable them to provide term finance to their clients world-wide for imports from India.

LOANS TO COMMERCIAL BANKS IN INDIA

EXPORT BILLS REDISCOUNTING: Commercial Banks in India who are authorized to deal in foreign exchange can rediscount their short term export bills with Exim Banks, for an unexpired usance period of not more than 90 days.

REFINANCE OF EXPORT CREDIT: Authorized dealers in foreign exchange can obtain from Exim Bank 100% refinance of deferred payment loans extended for export of eligible Indian goods.
GUARANTEEING OF OBLIGATIONS: Exim Bank participates with commercial banks in India in the issue of guarantees required by Indian companies for the export contracts and for execution of overseas construction and turnkey projects.

MAJOR PROGRAMMES OF EXIM BANK

Source: Primary data

EXPORT PRE SHIPMENT FINANCE

Pre Shipment Finance is issued by a financial institution when the seller wants the payment of the goods before shipment. The main objectives behind pre-shipment finance or pre export finance are to enable exporter to:

- Procure raw materials.
- Carry out manufacturing process.
- Provide a secure warehouse for goods and raw materials.
- Process and pack the goods.
- Ship the goods to the buyers.
- Meet other financial cost of the business.

TYPES OF PRE SHIPMENT FINANCE

- Packing Credit
- Advance against Cheques/Draft etc. representing Advance Payments.
Pre-shipment finance is extended in the following forms:

- Packing Credit in Indian Rupee
- Packing Credit in Foreign Currency (PCFC)

**REQUIREMENT FOR GETTING PACKING CREDIT**

This facility is provided to an exporter who satisfies the following criteria:

- A ten digit importer exporter code number allotted by DGFT.
- Exporter should not be in the caution list of RBI.
- If the goods to be exported are not under OGL (Open General License), the exporter should have the required license/quota permit to export the goods.

Packing credit facility can be provided to an exporter on production of the following evidences to the bank:

1. Formal application for release the packing credit with undertaking to the effect that the exporter would be ship the goods within stipulated due date and submit the relevant shipping documents to the banks within prescribed time limit.

2. Firm order or irrevocable L/C or original cable / fax / telex message exchange between the exporter and the buyer.

3. Licence issued by DGFT if the goods to be exported fall under the restricted or canalized category. If the item falls under quota system, proper quota allotment proof needs to be submitted.

The confirmed order received from the overseas buyer should reveal the information about the full name and address of the overseas buyer, description quantity and value of goods (FOB or CIF), destination port and the last date of payment.
ELIGIBILITY
Pre shipment credit is only issued to that exporter who has the export order in his own name. However, as an exception, financial institution can also grant credit to a third party manufacturer or supplier of goods who does not have export orders in their own name. In this case some of the responsibilities of meeting the export requirements have been out sourced to them by the main exporter. In other cases where the export order is divided between two more than two exporters, pre shipment credit can be shared between them.

QUANTUM OF FINANCE
The Quantum of Finance is granted to an exporter against the LC or an expected order. The only guideline principle is the concept of Need Based Finance. Banks determine the percentage of margin, depending on factors such as:
- The nature of Order.
- The nature of the commodity.
- The capability of exporter to bring in the requisite contribution.

DIFFERENT STAGES OF PRE SHIPMENT FINANCE
APPRAISAL AND SANCTION OF LIMITS
Before making any an allowance for Credit facilities banks need to check the different aspects like product profile, political and economic details about country. Apart from these things, the bank also looks in to the status report of the prospective buyer, with whom the exporter proposes to do the business. To check all these information, banks can seek the help of institution like ECGC or International consulting agencies like Dun and Brad street etc. The Bank extended the packing credit facilities after ensuring the following
- The exporter is a regular customer, a bona fide exporter and has a goods standing in the market.
- Whether the exporter has the necessary license and quota permit (as mentioned earlier) or not.
• Whether the country with which the exporter wants to deal is under the list of Restricted Cover Countries (RCC) or not.

DISBURSEMENT OF PACKING CREDIT ADVANCE
Once the proper sanctioning of the documents is done, bank ensures whether exporter has executed the list of documents mentioned earlier or not. Disbursement is normally allowed when all the documents are properly executed. Sometimes an exporter is not able to produce the export order at time of availing packing credit. So, in these cases, the bank provides a special packing credit facility and is known as Running Account Packing.

Before disbursing the bank specifically check for the following particulars in the submitted documents:

- Commodity to be exported
- Quantity
- Value (either CIF or FOB)
- Last date of shipment / negotiation.
- Any other terms to be complied with

The quantum of finance is fixed depending on the FOB value of contract /LC or the domestic values of goods, whichever is found to be lower. Normally insurance and freight charged are considered at a later stage, when the goods are ready to be shipped. In this case disbursals are made only in stages and if possible not in cash.

The payments are made directly to the supplier by drafts/bankers/cheques. The bank decides the duration of packing credit depending upon the time required by the exporter for processing of goods. The maximum duration of packing credit period is 180 days, however bank may provide a further 90 days extension on its own discretion, without referring to RBI.
FOLLOW UP OF PACKING CREDIT ADVANCE

Exporter needs to submit stock statement giving all the necessary information about the stocks. It is then used by the banks as a guarantee for securing the packing credit in advance. Bank also decides the rate of submission of these stocks. Apart from this, authorized dealers (banks) also physically inspect the stock at regular intervals.

LIQUIDATION OF PACKING CREDIT ADVANCE

Packing Credit Advance needs be liquidated out of as the export proceeds of the relevant shipment, thereby converting pre-shipment credit into post-shipment credit. This liquidation can also be done by the payment receivable from the Government of India and includes the duty drawback, payment from the Market Development Fund (MDF) of the Central Government or from any other relevant source. In case if the export does not take place then the entire advance can also be recovered at a certain interest rate. RBI has allowed some flexibility in to this regulation under which substitution of commodity or buyer can be allowed by a bank without any reference to RBI. Hence in effect the packing credit advance may be repaid by proceeds from export of the same or another commodity to the same or another buyer. However, bank need to ensure that the substitution is commercially necessary and unavoidable.

OVERDUE PACKING

Bank considers a packing credit as an overdue, if the borrower fails to liquidate the packing credit on the due date. And, if the condition persists then the bank takes the necessary step to recover its dues as per normal recovery procedure.

PACKING CREDIT TO SUB SUPPLIER

Packing Credit can only be shared on the basis of disclaimer between the Export Order Holder (EOH) and the manufacturer of the goods. This disclaimer is normally issued by the
EOH in order to indicate that he is not availing any credit facility against the portion of the order transferred in the name of the manufacturer.

This disclaimer is also signed by the bankers of EOH after which they have an option to open an inland L/C specifying the goods to be supplied to the EOH as a part of the export transaction. On basis of such an L/C, the sub supplier bank may grant a packing credit to the sub supplier to manufacture the components required for exports. On supply of goods, the L/C opening bank will pay to the sub supplier's bank against the inland documents received on the basis of the inland L/C opened by them.

The final responsibility of EOH is to export the goods as per guidelines. Any delay in export order can bring EOH to penal provisions that can be issued anytime.

The main objective of this method is to cover only the first stage of production cycles, and is not to be extended to cover supplies of raw material etc. Running account facility is not granted to sub suppliers. In case the EOH is a trading house, the facility is available commencing from the manufacturer to whom the order has been passed by the trading house. Banks however, ensure that there is no double financing and the total period of packing credit does not exceed the actual cycle of production of the commodity.

**RUNNING ACCOUNT FACILITY**

It is a special facility under which a bank has right to grant pre-shipment advance for export to the exporter of any origin. Sometimes banks also extent these facilities depending upon the good track record of the exporter. In return the exporter needs to produce the letter of credit / firms export order within a given period of time.

**EXPORT POST SHIPMENT FINANCE**

Post Shipment Finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of exporter proceeds. Exporters don’t wait for the importer deposit funds.
BASIC FEATURES OF POST SHIPMENT FINANCE

The features of post-shipment finance are:

- **Purpose of Finance**: Post-shipment finance is meant to finance export sales receivable after the date of shipment of goods to the date of realization of exports proceeds. In cases of deemed exports, it is extended to finance receivable against supplies made to designated agencies.

- **Basis of Finance**: Post-shipment finances are provided against evidence of shipment of goods or supplies made to the importer or seller or any other designated agency.

- **Types of Finance**: Post-shipment finance can be secured or unsecured. Since the finance is extended against evidence of export shipment and bank obtains the documents of title of goods, the finance is normally self liquidating. In that case it involves advance against undrawn balance, and is usually unsecured in nature. Further, the finance is mostly a funded advance. In few cases, such as financing of project exports, the issue of guarantee (retention money guarantees) is involved and the financing is not funded in nature.

- **Quantum of Finance**: As a quantum of finance, post-shipment finance can be extended up to 100% of the invoice value of goods. In special cases, where the domestic value of the goods increases the value of the exporter order, finance for a price difference can also be extended and the price difference is covered by the government. This type of finance is not extended in case of pre-shipment stage. Banks can also finance undrawn balance. In such cases banks are free to stipulate margin requirements as per their usual lending norm.

- **Period of Finance**: Post-shipment finance can be off short terms or long term, depending on the payment terms offered by the exporter to the overseas importer. In case of cash exports, the maximum period allowed for realization of exports proceeds is six months from the date of shipment. Usually, the documents need to be submitted within 21 days from the date of shipment.
FINANCING FOR VARIOUS TYPES OF EXPORT BUYER'S CREDIT

Post-shipment finance can be provided for three types of export:

- **Physical exports**: Finance is provided to the actual exporter or to the exporter in whose name the trade documents are transferred.
- **Deemed export**: Finance is provided to the supplier of the goods which are supplied to the designated agencies.
- **Capital goods and project exports**: Finance is sometimes extended in the name of overseas buyer. The disbursal of money is directly made to the domestic exporter.

SUPPLIER'S CREDIT

Buyer’s Credit is a special type of loan that a bank offers to the buyers for large scale purchasing under a contract. Once the bank approved loans to the buyer, the seller shoulders all or part of the interests incurred.

TYPES OF POST SHIPMENT FINANCE

The post shipment finance can be classified as:

**EXPORT BILLS PURCHASED/ DISCOUNTED.(DP & DA BILLS)**

Export bills (Non L/C Bills) is used in terms of sale contract/ order may be discounted or purchased by the banks. It is used in indisputable international trade transactions and the proper limit has to be sanctioned to the exporter for purchase of export bill facility.

**EXPORT BILLS NEGOTIATED (BILL UNDER L/C)**

The risk of payment is less under the LC, as the issuing bank makes sure the payment. The risk is further reduced, if a bank guarantees the payments by confirming the LC. Because of the inborn security available in this method, banks often become ready to extend the finance against bills under LC.

However, this arises two major risk factors for the banks:
1. The risk of nonperformance by the exporter, when he is unable to meet his terms and conditions. In this case, the issuing banks do not honor the letter of credit.

2. The bank also faces the documentary risk where the issuing bank refuses to honour its commitment. So, it is important for the negotiating bank, and the lending bank to properly check all the necessary documents before submission.

ADVANCE AGAINST EXPORT BILLS SENT ON COLLECTION BASIS

Bills can only be sent on collection basis, if the bills drawn under LC have some discrepancies. Sometimes exporter requests the bill to be sent on the collection basis, anticipating the strengthening of foreign currency. Banks may allow advance against these collection bills to an exporter with a concessional rates of interest depending upon the transit period in case of DP Bills and transit period plus usance period in case of usance bill. The transit period is from the date of acceptance of the export documents at the banks branch for collection and not from the date of advance.

ADVANCE AGAINST EXPORT ON CONSIGNMENTS BASIS

Bank may choose to finance when the goods are exported on consignment basis at the risk of the exporter for sale and eventual payment of sale proceeds to him by the consignee. However, in this case bank instructs the overseas bank to deliver the document only against trust receipt /undertaking to deliver the sale proceeds by specified date, which should be within the prescribed date even if according to the practice in certain trades a bill for part of the estimated value is drawn in advance against the exports. In case of export through approved Indian owned warehouses abroad the times limit for realization is 15 months.

ADVANCE AGAINST UNDRAWN BALANCE

It is a very common practice in export to leave small part undrawn for payment after adjustment due to difference in rates, weight, quality etc. Banks do finance against the undrawn balance, if undrawn balance is in conformity with the normal level of balance left undrawn in the particular line of export, subject to a maximum of 10 percent of the export value. An undertaking is also obtained from the exporter that he will, within 6 months from
due date of payment or the date of shipment of the goods, whichever is earlier surrender balance proceeds of the shipment.

ADVANCE AGAINST CLAIMS OF DUTY DRAWBACK
Duty Drawback is a type of discount given to the exporter in his own country. This discount is given only, if the in house cost of production is higher in relation to international price. This type of financial support helps the exporter to fight successfully in the international markets. In such a situation, banks grants advances to exporters at lower rate of interest for a maximum period of 90 days. These are granted only if other types of export finance are also extended to the exporter by the same bank.

After the shipment, the exporters lodge their claims, supported by the relevant documents to the relevant government authorities. These claims are processed and eligible amount is disbursed after making sure that the bank is authorized to receive the claim amount directly from the concerned government authorities.

CRYSTALLIZATION OF OVERDUE EXPORT BILLS
Exporter foreign exchange is converted into Rupee liability, if the export bill purchase /negotiated /discounted is not realize on due date. This conversion occurs on the 30th day after expiry of the NTP in case of unpaid DP bills and on 30th day after national due date in case of DA bills, at prevailing TT selling rate ruling on the day of crystallization, or the original bill buying rate, whichever is higher.

POST-SHIPMENT CREDIT IN FOREIGN CURRENCY
The exporters have the option of availing of exports credit at the post-shipment stage either in rupee or in foreign currency. The credit is granted under the Rediscounting of Export Bills Abroad Scheme (EBR) at LIBOR linked interest rates. The Scheme covers export bills with usance period upto 180 days from the date of shipment. Discounting of bills beyond 180 days requires prior approval from RBI. The exporters have the option to avail of pre-shipment credit and post-shipment credit either in rupee or in foreign currency. If pre-shipment credit has been availed of in foreign currency, the post-shipment credit necessarily to be under the
EBR scheme. This is done because the foreign currency pre-shipment credit has to be liquidated in foreign currency. Provision of personnel, furnishing of knowhow, skills, operation and maintenance services and management contracts.

**EXPORT CREDIT**

Exim Bank provides pre-shipment and post shipment credit in Indian rupees and foreign currency. Finance is extended for short term i.e. upto 6 months as also for medium/long term i.e. beyond 6 months for eligible products and projects. Medium/long term export credit is projects. Medium/long term export credit is extended by way of supplier's credits i.e. through the Indian exporter with recourse to the exporter or buyer's credits i.e. directly to the overseas buyer with no recourse to the Indian exporter. Certain RBI guidelines apply for such medium/long term export credit. Exim Bank has been recently permitted by RBI to cover inter-alia agricultural commodities and processed foods under the Lines of Credit. Export contracts under Lines of Credits are financed without recourse to the exporter i.e. off balance sheet finance whilst the importer gets credit. Exim Bank extends loans for executing deemed export contracts. Exim Bank also issues guarantees overseas on behalf of Indian exporters.

**PAYMENT METHODS IN EXPORT AND IMPORT TRADE**

There are 3 standard ways of payment methods in the export import trade international trade market:

- **Clean Payment**
- **Collection of Bills**
- **Letters of Credit L/c**

**CLEAN PAYMENTS**

In clean payment method, all shipping documents, including title documents are handled directly between the trading partners. The role of banks is limited to clearing amounts as
required. Clean payment method offers a relatively cheap and uncomplicated method of payment for both importers and exporters. There are basically two type of clean payments:

(a) Advance Payment

In advance payment method the exporter is trusted to ship the goods after receiving payment from the importer.

(b) Open Account

In open account method the importer is trusted to pay the exporter after receipt of goods. The main drawback of open account method is that exporter assumes all the risks while the importer get the advantage over the delay use of company's cash resources and is also not responsible for the risk associated with goods.

PAYMENT COLLECTION OF BILLS

The Payment Collection of Bills also called “Uniform Rules for Collections” is published by International Chamber of Commerce (ICC) under the document number 522 (URC522) and is followed by more than 90% of the world's banks.

In this method of payment in international trade the exporter entrusts the handling of commercial and often financial documents to banks and gives the banks necessary instructions concerning the release of these documents to the Importer. It is considered to be one of the cost effective methods of evidencing a transaction for buyers, where documents are manipulated via the banking system. There are two methods of collections of bill:

(a) Documents Against Payment  D/P

In this case documents are released to the importer only when the payment has been done.

(b) Documents Against Acceptance  D/A

In this case documents are released to the importer only against acceptance of a draft.

LETTER OF CREDIT  L/C

Letter of Credit also known as Documentary Credit is a written undertaking by the importers bank known as the issuing bank on behalf of its customer, the importer (applicant), promising
to effect payment in favor of the exporter (beneficiary) up to a stated sum of money, within a
prescribed time limit and against stipulated documents. It is published by the International
Chamber of Commerce under the provision of Uniform Custom and Practices (UCP)
brochure number 500.
Various types of L/Cs are:

(a) Revocable & Irrevocable Letter of Credit (L/c)
A Revocable Letter of Credit can be cancelled without the consent of the exporter. An
Irrevocable Letter of Credit cannot be cancelled or amended without the consent of all
parties including the exporter.
(b) Sight & Time Letter of Credit
If payment is to be made at the time of presenting the document then it is referred as the Sight
Letter of Credit. In this case banks are allowed to take the necessary time required to check
the documents. If payment is to be made after the lapse of a particular time period as stated in
the draft then it is referred as the Term Letter of Credit.
(c) Confirmed Letter of Credit (L/c)
Under a Confirmed Letter of Credit, a bank, called the Confirming Bank, adds its
commitment to that of the issuing bank. By adding its commitment, the Confirming Bank
takes the responsibility of claim under the letter of credit, assuming all terms and conditions
of the letter of credit are met.

CONCLUSION
This is an attempt is made to find out the performance rendered by the EXIM bank of India.
Developing countries like India concentrates more on increasing the value and volume of the
export turnover to attain economic developments to provide employment opportunities to
utilize all the available resources and to finance for exports. But the export sector involves
high amount of risk. The Indian exporters have to be protected from several types of risks
involved in export business. Here EXIM bank plays vital role. By improving the performance
of export, bank is in better position to extend its services to all types of exporters effectively.
EXIM banking of course, extends beyond international banking which in its narrow sense relates to delivery of trade products and services to business and trade Customers. Thus, The EXIM bank of India is regarded as the drivers behind global trade and corporate globalization.

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