

# Role of exim bank growth of foreign trade economics essay

[Finance](#), [Banks](#)



## **Introduction of Industry**

As we know that the ministry of commerce and Industry is the most important organ concerned with the promotion and regulation of foreign trade in India. The Ministry has an elaborate organizational set up to look after the various aspects of trade. Its two important offices concerned with trade are the ' Directorate General of Foreign Trade (DGFT)' and the ' Directorate General of Commercial Intelligence and Statistics (DGCI&S)'. DGFT is responsible for implementing the Foreign Trade Policy/Exim Policy with the main objective of promoting Indian exports. It also issues licenses to exporters and monitors their corresponding obligations through a network of regional offices. DGCI&S is entrusted with the work of collecting, compiling and publishing/ disseminating trade statistics and various types of commercial information required by the policy makers, researchers, importers, exporters, traders as well as overseas buyers.

Directorate of Industries & Commerce is charged with the responsibilities of facilitating industrial growth in the country by providing funding for Infrastructure in the form of industrial estates, incentives for capital Investment and other subsidies. It provides the entrepreneur, power, land and water, besides sanction of fiscal incentives.

Foreign trade has played a crucial role in India's economy growth. The composition and direction of India's foreign trade has undergone substantial changes, particularly, after the liberalization process which began in the early 1990s. Our major exports now includes manufacturing goods such as

Engineering Goods, Petroleum Products, Chemicals & Related Products, Gems & Jewellery, Textiles, Electronic Goods, etc. which constitute over 80 per cent of our export basket. On the other hand, major import items constitute capital goods and intermediates which not only support the manufacturing sector but also supply raw-materials for the export oriented units. Over the years, India's trade with countries of Asia & ASEAN and Africa has gone up substantially. Apart from that, India is now a major player in global trading system and all the major sectors of Indian economy are linked to world outside either directly or indirectly through international trade.

## **Introduction of Topic**

### **Exim Bank (India)**

Exim Bank (full name: The Export-Import Bank of India) is an Indian government-owned financial institution for the public sector created by an Act of the Parliament of India: the Export-Import Bank of India Act 1981.

Exim Bank is managed by a Board of Directors, which has representatives from the Government, Reserve Bank of India, Export Credit Guarantee Corporation of India (ECGC), a financial institution, public sector banks, and the business community. The Bank's functions are segmented into several operating groups including: Corporate Banking Group which handles a variety of financing programmes for Export Oriented Units (eous), Importers, and overseas investment by Indian companies.

Project Finance / Trade Finance Group handles the entire range of export credit services such as supplier's credit, pre-shipment credit, buyer's credit, finance for export of projects & consultancy services, guarantees, forfeiting,

etc. Lines of Credit Group Lines of Credit (LOC) is a financing mechanism and export transactions in the agricultural sector for financing. Small and Medium Enterprises Group to the specific financing requirements of export oriented smes. The group handles credit proposals from smes under various lending programmes of the Bank. Export Services Group offers variety of advisory and value-added information services aimed at investment promotion Fee based Export Marketing Services Bank offers assistance to Corporate Affairs.

### Service Category

Government to Business (G2B)

### Service Title

Export Import Data Bank

### Service State/Ministry

Ministry of Commerce and Industry

### Service Description

One will get the Trade statistics – both import and export details

### Service Language

English

Minister of Commerce and Industry

Shri Anand Sharma

It is set up by an act of parliament in September 1981

Wholly owned by government of india

Commenced operations in march 1982

Apex financial institution

### **Objectives:**

“... for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country’s international trade...” “... shall act on business principles with due regard to public interest”

### **Exim Policy Facilities**

The existing export promotion schemes such as Export Promotion Capital Goods Scheme, Duty Exemption and Remission Scheme, Scheme for Gems and Jewellery Exports, EHTP and SEZ Schemes have been further strengthened and simplified. The various relaxations provided under the above Schemes are given below

Export Promotion Capital Goods Scheme (EPCG)

Duty Exemption and Remission Scheme

Gems and Jewellery Exports

Special Economic Zones

Electronic Hardware Technology Parks

Other Facilities

Chemicals and Pharmaceuticals

Projects

Strategic Package for Status Holders

Neutralizing high fuel costs

Diversification of markets

North Eastern States, Sikkim and Jammu & Kashmir

Re-location of industries

Reduction in transaction time & cost

## **BANK'S FUNCTIONS**

The Bank's functions are segmented into several operating groups including:

Corporate Banking Group which handles a variety of financing programmes for Export Oriented Units (EOUs), Importers, and overseas investment by Indian companies. Project Finance / Trade Finance Group handles the entire range of export credit services such as supplier's credit, pre-shipment credit, buyer's credit, finance for export of projects & consultancy services, guarantees, forfaiting etc.

Lines of Credit Group Lines of Credit (LOC) is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool.

Agriculture Business Group, to spearhead the initiative to promote and support Agri-exports. The Group handles projects and export transactions in the agricultural sector for financing.

Small and Medium Enterprises Group to the specific financing requirements of export oriented SMEs. The group handles credit proposals from SMEs under various lending programmes of the Bank.

Export Services Group offers variety of advisory and value-added information services aimed at investment promotion Fee based Export Marketing Services Bank offers assistance to Indian companies, to enable them establish their products in overseas markets.

Besides these, the Support Services groups, which include: Research & Planning, Corporate Finance, Loan Recovery, Internal Audit, Management Information Services, Information Technology, Legal, Human Resources Management and Corporate affairs.

## **RESEARCH METHODOLOGY**

Generally research is considered as an endeavor to arrive at the answer to intellectual and practical problem through the application of scientific method to the acknowledge universe. It is movement from known to unknown.

My research based on the secondary resources. The data taken from the different websites (Indian govt., Exim bank policy, Foreign trade).

## **Review of Literature**

India's export performance /April-august, 2004-05/ Nimmala Amharic- In this article that writer have a research on the topic of India's export performance. And he found in his research that Indian's foreign trade are increasing year by year in both respect of export and import. But total trade deficit is a big problem of Indian economy. And he also find in their research that some of the sector has grew in terms of export such as Automobiles, Gems & Jewellery, and Textiles.

## **OBJECTIVES**

To know the Role of EXIM Bank in the growth of Foreign Trade.

To know the various services provided by the EXIM banks which support in foreign trade

## **Data And Facts**

### **Total Trade of Exports and Imports over the Years in Crore Rupees**

Year

Exports

Imports

Total Trade



Trade Deficit

1990-91

32558

43193

75751

-10635

1991-92

44042

47851

91893

-3809

1992-93

53688

63375

117063

-9687

1993-94

69751

73101

142852

-3350

1994-95

82674

89971

172645

-7297

1995-96

106353

122678

229031

-16325

1996-97

118817

138920

257737

-20103

1997-98

130101

154176

284277

-24075

1998-99

139753

178332

318085

-38579

1999-2000

159561

215236

374797

-55675

2000-01

209018

230873

434444

-27302

2001-02

255137

245200

454218

-36182

2002-03

293367

297206

552343

-42069

2003-04

375340

359108

652475

-65741

2004-05

375340

501065

876405

-125725

2005-06

456483

635013

1091496

-178530

2006-07

571779

840506

1412286

-268727

2007-08

655864

1012312

1668176

-356448

2008-09(P)

766935

1385503

2072338

-538568

## **External Trade with Other Countries during 2007-08 and 2008-09**

### **Region**

#### **Exports (April-Feb)**

#### **Imports (April-Feb)**

#### **2007-08**

#### **2008-09(P)**

#### **2007-08(P)**

#### **2008-09(P)**

### **1. Europe**

**1, 33, 151**

**1, 65, 925**

**1, 75, 335**

**2, 23, 813**

1. 1 EU countries 27

1, 23, 219

1, 55, 266

1, 27, 315

1, 61, 593

1. 2 Other WE countries

9, 553

10, 123

47, 881

62, 115

1. 3 East Europe

379

536

138

106

## **2. Africa**

**38, 062**

**44, 922**

**51, 519**

**60, 151**

2. 1 Southern Africa

13, 058

12, 393

17, 868



29, 377

## 2. 2 West Africa

12, 851

13, 204

35, 614

48, 514

## 2. 3 Central Africa

934

1, 372

189

632

## 2. 4 East Africa

15, 126

18, 687

1, 158

1, 158

### **3. America**

**98, 900**

**1, 14, 966**

**79, 780**

**1, 21, 381**

3. 1 North America

79, 880

89, 476

56, 281

80, 825

3. 2 Latin America

10, 019

45, 490

23, 498

40, 556

## **4. Asia and Asean**

**2, 96, 287**

**3, 57, 982**

**5, 43, 551**

**7, 39, 622**

4. 1 East Asia

5, 070

6, 719

30, 783

40, 230

4. 2 ASEAN

56, 663

75, 357

82, 289

1, 06, 418

4. 3 WANA

1, 08, 920

1, 44, 039

2, 58, 645

3, 56, 716

4. 4 NE Asia

92, 974

96, 846

1, 64, 030

2, 28, 746

4. 5 South Asia

32, 659

35, 020

7, 805

7, 513

## **5. CIS & Baltics**

**6, 101**

**7, 623**

**14, 238**

**28, 793**

5. 1 cars Countries

826

1, 047

419

1, 157

5. 2 Other CIS Countries

5, 275

6, 577

13, 818

27, 636

## **6. Unspecified Region**

**1, 482**

**4, 346**

**2, 666**

**4, 710**

**Total**

**5, 77, 889**

**6, 96, 498**

**8, 70, 399**

**11, 98, 360**

## **EXPORT CREDITS**

### **EXIM LINES OF CREDIT (LOC)**

The main role of Exim bank in foreign trade is to give credit facilities. Exim Bank extends Lines of Credit (LOC) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries, to import goods and services from India on deferred credit terms. The Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool. Exim Bank extends LOC, on its own, as well as, at the behest of Government of India. Exim Bank

offers the following Export Credit facilities, which can be availed of by Indian companies, commercial banks and overseas entities:

For Indian Companies executing contracts overseas

for commercial Banks

Other Facilities for Indian Companies

For Overseas Entities

For Indian Companies executing contracts overseas

### **Pre-shipment credit**

Exim Bank's Pre-shipment Credit facility, in Indian Rupees and foreign currency, provides access to finance at the manufacturing stage – enabling exporters to purchase raw materials and other inputs.

### **Supplier's Credit**

This facility enables Indian exporters to extend term credit to importers (overseas) of eligible goods at the post-shipment stage.

### **For Project Exporters**

Indian project exporters incur Rupee expenditure while executing overseas project export contracts i. e. Costs of mobilization/acquisition of materials, personnel and equipment etc. Exim Bank's facility helps them meet these expenses.

## **For Exporters of Consultancy and Technological Services**

Exim Bank offers a special credit facility to Indian exporters of consultancy and technology services, so that they can, in turn, extend term credit to overseas importers

### **Guarantee Facilities**

Indian companies can avail of these to furnish requisite guarantees to facilitate execution of export contracts and import transactions.

### **How does it work?**

Exim Bank signs LOC Agreement with overseas Borrower Institution (Borrower) and announces the availability of LOC for utilization, when the Agreement becomes effective.

Exporter checks with Exim Bank, available amount under the LOC and quantum of service fee payable to Exim Bank, if any, and negotiates contract with Importer.

Importer approaches the Borrower for approval of the contract.

Borrower appraises the proposal. If satisfied, approves the contract and refers to Exim Bank for concurrence for inclusion of contract for being financed under the LOC.

Exim Bank accords approval to the contract, if in conformity with the terms of LOC. Exim Bank conveys contract approval to the exporter and the Borrower.



The Importer arranges remittance of advance payment to the Exporter and also opening of a Letter of Credit, which states that the contract is covered under Exim Bank's LOC to the Borrower and reimbursement will be by Exim Bank for the Eligible Value of Credit, upon compliance with stipulated conditions therein.

Exporter executes the contract/ships the goods/provides services.

Exim Bank/commercial bank in India, designated as the Negotiating Bank negotiates shipping documents and pays the exporter.

Exim Bank reimburses the Negotiating Bank, on receipt of valid claim and service fee, as applicable, by debit to the LOC account of the Borrower.

Borrower repays Exim Bank on due dates.

Exim Bank signs agreement with Borrower and announces when effective.

Exporter checks procedures and service fee payable, if any, with Exim Bank and negotiates contract with Importer.

Importer consults Borrower and signs contract with exporter.

Borrower approves contract.

Exim Bank approves contract and advises Borrower and also exporter and his negotiating bank, in India.

Importer establishes L/C in favor of Exporter.

Exporter ships goods.

Exim Bank/commercial bank negotiates shipping documents and pays exporter.

EXIM Bank reimburses commercial bank on receipt of claim and debits LOC account of the Borrower.

Borrower repays EXIM Bank on due dates.

### **Lending Programme for Export Oriented Units**

To create and enhance export capabilities of Indian companies. it provide them Term loans in Indian rupees/ foreign currency, Deferred Payment Guarantee for import of capital goods. And in place of that they charged minimum Bank's lending rate and 1% of loan amount payable upfront as service charged they provide this facility to following eligible company:

Units set up/proposed to be set up in Export Processing Zones

Units under the 100% Export Oriented Units Scheme

Units importing capital goods under Export Promotion Capital Goods Scheme

Units undertaking expansion /modernization /up gradation /diversification programs of existing export oriented units with export orientation of minimum 10% or sales of Rs. 5 crores per annum whichever is lower

## **Lending Programme for Overseas Joint Ventures/Wholly Owned Subsidiaries by Indian Companies-**

To finance by way of equity loan to Indian companies for setting up of overseas joint ventures/ wholly owned subsidiaries

### **Eligible Companies**

Any Indian promoter making equity investment in an existing company or a new project overseas with the requisite approval for such investment from the Reserve Bank of India (RBI)/Government of India as also from the government and other concerned authorities in the host country

The total value of the investment by the Indian company does not exceed US \$ 15 million in respect of Indian investment in SAARC countries and Myanmar total value of investment does not exceed US \$ 30 million; and in respect of Indian Rupee investment in Nepal and Bhutan, total value of investment does not exceed Rs. 120 crores

The amount of investment is up to 25% of annual average export earnings of the company in the preceding three years

The amount of investment is repatriated in fully by way of dividends, royalty, technical service fees, etc. Within a period of five years.

### **Refinance to Commercial Banks**

Exim Bank provides 100% refinance to commercial banks in respect of rupee term loans extended by them to Indian Promoter Company for equity contribution in overseas JV/WOS. As per prevailing RBI guidelines,

commercial banks can consider loan for equity investment only under Exim Bank's Refinance scheme.

## **Equity Investment in Indian Ventures Abroad**

To catalyze overseas investment by Indian companies to enhance visibility of Indian overseas ventures.

## **Quantum of Exim Bank's equity participation**

Upton 25% of equity capital of the jvs involving Indian & foreign companies

Upton 50% of equity capital in case of wholly owned subsidiaries of Indian companies

Subject to a ceiling of US \$ 5 MN per proposal and remove subject to RBI

## **Investment Criteria**

While considering equity investment with Indian companies business in India, weightage will be giving to the following:

Background and track record of Indian and foreign promoters

Synergy of overseas operations with business in India

Financial viability and technical feasibility

Return on Exim's investment

Benefits to India in terms of trade enhancement, technology transfer, and foreign exchange earnings etc.

Spin off benefits such as brand marketing and penetration of new markets will also be considered

### **Asian Countries Investment Partners Programme (ACIP)**

To promote joint ventures in India between Indian companies & companies from Asian countries through four facilities that address different stages of the project cycle. ACIP seeks to catalyze investment flows into India by creation of Joint Ventures in India between Indian companies and companies from East Asian countries. ACIP is proposed to be a funding instrument providing finance at various stages of a Joint Venture project cycle viz. Sector study, project identification, feasibility study, prototype development, setting up project and technical, managerial assistance.

### **Export Marketing Finance Programme**

To create and enhance export capabilities and international competitiveness of Indian companies. Under the lending programme for Export Marketing Finance, the Bank addresses the term finance requirements for a structural and strategic export marketing and development effort of Indian companies

### **Eligible Companies**

Company who have a strategic international marketing plan.

Company should have established presence in the domestic market

Company should have satisfactory financials.

### **Interest Rates**

Rupee Term Loans – Linked to Exim Bank's Minimum Lending Rate

Foreign Currency Term Loans – At floating or fixed interest rates

Additionally interest tax is applicable will be payable

### **Service Fee**

1% of loan amount sanctioned, payable upfront & non-refundable

### **Export Product Development Programme**

To support systematic export product development plans with focus on industrialized markets

### **Eligible Companies**

Established exporting enterprises with product development programme dedicated to export

The company must also have an established track record and satisfactory financials

### **Programme for Financing Export Vendor Development (EVD)**

#### **Objective**

To finance export strategic vendor development plans for export companies with a view to enhancing exports through creation, strengthening of backward linkages with vendors.

#### **Eligible Companies**

Export companies and Trading Houses

Manufacturer-exporters with satisfactory track record and financials , li>  
Companies with strategic plan for vendor development for exports are eligible to seek finance under this programme

Companies purchasing from vendors finished, semi-finished or intermediate products with the exporter adding value to the product in the form of further processing or marketing them

### **Interest Rate**

Interest Rate linked to Bank's Minimum Lending Rate

Soft loan at 7. 5% p. a. (subject to change) subject to maximum of Rs. 50 lakhs

### **Repayment Period**

Upton 7 years

### **Programme for Export Facilitation**

Exim Bank offers term finance and non-funded facilities to Indian corporates to create infrastructure facilities to facilitate India's international trade & thereby enhance their export capability.

### **Foreign Currency Pre-Shipment Credit (FCPC)**

Under this programme, short-term foreign currency finance is available to eligible exporters for financing inputs for export production such as raw materials, components and consumables. The finance is repayable in foreign currency from proceeds of the relative exports.

FCPC programme represents another funding source to the exporter for expanding export volumes, particularly of manufactured and value added goods. It eliminates two-way exchange conversion costs and exchange risk, thus enhancing export competitiveness. FCPC can be a cost effective funding source as compared to rupee export credit as well as overseas supplier's credit depending on market conditions for loans under FCPC. As far as commercial banks are concerned, loans availed of from Exim Bank are exempt from Cash Reserve Ratio, Statutory Liquidity Ratio and Incremental Credit-Deposit Ratio requirements.

### **Eligible Borrowers**

Exporting companies

Commercial Banks for on lending to exporting customers

### **Working Capital Term Loan Programme for Export Oriented Units (WCTL)**

WCTL programme seeks to create, enhance export capabilities of Indian companies. Under the Programme, the Bank addresses the working capital (loan component) requirements of export oriented units.

### **Eligible Companies**

Units set up/proposed to be set up in Export Processing Zones

Units under the 100% Export Oriented Units Scheme

Units importing capital goods under Export Promotion Capital Goods Scheme



Units undertaking expansion /modernization /up gradation/diversification programs of existing export oriented units with export orientation of 10% of sales or export sales of Rs. 5 crores per annum whichever is lower.

### **Bulk Import Finance Programme (BIF)**

In this service they provide short term working capital finance to manufacturing companies to excess consumable inputs. Under the programme, BIF is offered for import of eligible items with a minimum order size of Rs. 1 crores . And they provided the Short term loans in Indian Rupees and/or Foreign currency.

### **Programme for Financing Research & Development**

To provide integrated financing for Research & Development activities by export oriented companies

### **Exim Bank's finance available to**

Financially sound companies with a minimum export orientation of 20% of their net sales for the following eligible activities and eligible expenditure.

Eligible R&D Activities Eligible R&D Expenditure

Development and commercialization of new product / process / application.

Significant improvements in existing product / process / application/ design.

Development of technology or design to satisfy domestic or international environment, technical requirements/ standards, specifications.

Setting up, expansion of pilot plants.

## **FINANCE FOR EXPORT ORIENTED UNITS**

### **Term Finance**

Project Finance

Equipment Finance

Import of Technology & Related Services

Domestic Acquisitions of businesses/companies/brands

Export Product Development/ Research & Development

General Corporate Finance

### **Working Capital Finance (For Exporting Companies)**

Funded

Working Capital Term Loans [ $< 2$  years]

Long Term Working Capital [up to 5 years]

Export Bills Discounting

Export Packing Credit

Cash Flow financing

Non-Funded

Letter of Credit Limits

Guarantee Limits

## **Export Finance**

Pre-shipment Credit

Post Shipment Credit

Buyers' Credit

Suppliers' Credit [including deferred payment credit]

Bills Discounting

Export Receivables Financing

Warehousing Finance

Export Lines of Credit (Non-recourse finance)

## **Data analysis**

As we know that India's total external trade (exports plus imports including re-exports) in the year 1990-91 stood at Rs. 91, 893 crore. Since then, this has witnessed continuous increase with occasional downturns. During 2008-09 the value of India's external trade reached Rs. 20, 72, 438 crore. A statement indicating India's total export, import, total value of foreign trade and balance of trade from the year 1991-92 to 2008-09, in rupee terms, is given in table above.

India's exports during 2008-09 reached a level of Rs. 7, 66, 935 crore registering a growth of 16. 9 per cent. In US \$ terms, exports reached a level of US\$168. 7 billion, registering a growth of 3. 5 per cent as compared to a

growth of 29.1 per cent during the previous year. The growth of exports during the year has exhibited a significant slow-down from September 2008 onwards. While, during the first half of the year 2008-09, April-September, exports increased by 31.3 per cent with almost all the major commodity groups, except marine products, handicrafts and carpets, recording significant growth. In the second half of the year 2008-09, October-March, exports recorded a decline of (-) 19.2 per cent with almost all the commodity groups recording significant negative growth.

During 2008-09 imports increased to Rs. 13,05,503 crore from the level of Rs. 10,12,312 crore in 2007-08 registering growth of 29.0 per cent in rupee terms. In US \$ terms, imports reached a level of US \$ 287.8 billion in 2008-09 registering a growth of 14.4 per cent. Oil imports were valued at US \$ 93.2 billion, which was higher by 16.9 per cent over the previous year. Non-Oil imports increased to US \$ 194.6 billion, which was higher by 13.2 per cent. Items which registered significant growth are Pearl, Precious & Semi-Precious Stones, Crude & Manufactured Fertilizer, Coal, Inorganic Chemicals, Project Goods, etc. Import of Gold and Transport Equipment registered significant decline.

The Trade deficit during 2008-09 increased to Rs. (-) 538568 crore as against Rs. (-) 356449 crore during 2007-08. In US \$ terms, trade deficit increased to US \$ 119.1 billion from a level of US \$ 88.5 billion during 2007-08.

India has trading relations with all the major trading blocks and geographical regions of the world. Region and sub region-wide spread of India's during 2007-08 and 2008-09 as per data available up to 2008-09 (April-February) is given in table 7. 2. During the period 2008-09 (April-February), the share of Asia and ASEAN region comprising South Asia, East Asia, and Mid-Eastern and Gulf countries accounted for 51. 4 per cent of India's total exports. The share of Europe and America in India's exports stood at 23. 8 per cent and 16. 5 per cent respectively of which EU countries (27) comprises 22. 3 per cent. During the period, USA (12. 0 per cent), has been the most important country of export destination following by United Arab Emirates (10. 8 per cent), China (5. 1 per cent), Singapore (4. 7 per cent), Netherlands (3. 7 per cent), Hong Kong (3. 7 per cent), U. K. (3. 6 per cent), Germany (3. 4 per cent), Saudi Arabia (3. 0 per cent), Belgium (2. 6 per cent) and Italy (2. 2 per cent).

Asia and ASEAN accounted for 61. 7 per cent of India's total imports during the period followed by Europe (18. 7 per cent) and America (10. 1 per cent). Among individual countries the share of China stood highest at (10. 7 per cent) followed by Saudi Arabia (7. 1 per cent), UAE (6. 4 per cent) and USA (6. 0 per cent), Iran (4. 3 per cent), Switzerland (4. 2 per cent), Germany (3. 6 per cent), Kuwait (3. 4 per cent), Nigeria (3. 2 per cent), and Iraq (2. 8 per cent)

## **Conclusion**

As we describe above the various functions and role of the Exim Bank. Than we can say that it handles a variety of financing programs for Export Oriented Units (EOUs), Importers, and overseas investment