

WORKING PATTERN OF EXIM BANK AND ITS SUPPORT FOR INTERNATIONAL BUSINESS

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Abstract:

Export trade financing by EXIM Bank of India for Various types of exports to Indian Exporters, asses as the sufficiency of quantum of finance and the suitability for enhancing the same, its working as a pioneer in export credit, its role in supporting Indian industries, particularly exporting companies which truly needs export credit, in their globalization efforts through a wide range of the products and services offered at all stages of the business cycle, is the subject matter of the present study. The impacts and implication have been pointed out and suggestions have been given to provide optimal export credit to Indian exporters.

Key Words: EXIM Bank, Export Trade Finance, Financial Services, Export Credit, Project Export.

1.1 INTRODUCTION

The Indian economy opened up in the early 1990s with the introduction of a series of breakthrough economic reforms, which included, inter alia, opening for international trade and investment, deregulation, tax reforms and privatization thus, creating a new chapter for India's international trade and investments. As a result, the compound annual growth rate (CAGR) of India's exports picked up from 8.5 percent in the 1980s to 10.0 percent in the decade following the reforms, i.e. during 1992-93 to 2001-02, which more than doubled to 21.6 percent in the next decade i.e. 2002-03 to 2011-12. This strong growth in India's merchandise exports has been accompanied by an increase in the share of India in the global export market reflecting, among others, emergence of newer

markets, increased adaptability of Indian exporting companies to meet the changing patterns of global demand, and above all, the availability of finance provided by different banks to complete the export orders.

The EXIM Bank (1981) started in India even prior to the economic reform's initiative in India, with a mandate, not only just to enhance exports from India, but to integrate the country's foreign trade and investment with the overall economic growth. Since then this bank, EXIM Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, like other Export Credit Agencies in the world, EXIM Bank of India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalization efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment credit and overseas investment.

1.2 EXPORT TRADE FINANCE

One of the major contributory factors for promotion of export trade is the availability of "Special Finance" both at pre and post-shipment stages. An exporter has not only to procure the raw materials either indigenous or imported for processing the same in finished goods and boarding them of ship/air, but also has to often allow credit terms to an overseas buyer. Delivery period in international trade transactions is normally longer compared to the domestic counterpart and correspondingly. The lead time for getting payment from the overseas buyer is more. The exporter has thus to be extra cautious to ensure that the overseas buyer is reliable one and payment for the goods/services sold/rendered will be realized expeditiously. Therefore, the issues involved in export finance primarily involve (i) availability of adequate and timely finance, (ii) provision of concessional credit on order to make the export internationally

competitive, (iii) institutional support to protect the losses on account of default risks of the overseas buyers, & (iv) Availability of special deferred credit for promotion of project exports including turnkey assignments. To resolve all issues related with export finance, Indian financial system has a well-developed and integrated mechanism of offering financial assistance to exporters both at pre and post shipment stages. The commercial banks & EXIM Bank of India are actively engaged in financing genuine and need based short-term requirements of the borrowers. Export refinance mechanism from Reserve Bank of India takes care of the augmentation of their resources besides contributing to their profitability. Despite the existence of such massive network, the problems continue. Complaints are often heard from exporters, regarding rigidity of banks' credit mechanism along with delays in decision making process. Suggestions come forth towards relaxation of norms for financing along with need for introduction of innovative services.

In the above backdrop, the present study was undertaken to look into the various aspects of export financing in India with particular reference to the EXIM Bank of India, with the Objectives given below: -

1.3 OBJECTIVES OF THE STUDY

1. To examine the strategies of financial assistance to exporters by EXIM Bank of India
2. To study the efficiency of EXIM Bank of India to finance Indian Exporters

EXIM bank of India provides various export finance services with the help of its sector specific functional groups to the exporter of a particular sector or industry like Corporate Banking Group of EXIM Bank handles a variety of financing programs 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, and finance for export of projects & consultancy services, guarantees, forfeiting 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. Agri-Business Group, 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 programs of the Bank. Export Services Group offers variety of advisory and value-added information services aimed at investment promotion. Fee based Export Marketing Services group 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 and Loan Recovery etc.

1.4 REVIEW OF LITERATURE

1. **Raquel Mazal Krauss (2011), in his article “The Role and Importance of Export Credit Agencies”**, discuss about the three function of Export credit agencies (ECAs). First, they help exporters meet officially supported foreign credit competition. (When foreign governments subsidize their companies’ exports by offering buyers below-market, fixed-rate financings, exporters often find it difficult to offer financing that matches those subsidized rates.) Secondly, ECAs provide financing to foreign buyers when private lenders cannot or will not finance those export sales, even with the risks removed. Third, and perhaps their most important function, ECAs assume risks beyond those that can be assumed by private lenders. ECAs do not compete with private financial institutions. To the contrary, they enhance the ability of their country’s lenders to compete internationally. It should also be noted that they do not offer development assistance to other countries; other agencies typically fulfill this role.
2. **Sharma L.S. in his book "Export Management", Anmol Publications, New Delhi., 1989 p.28** considered competition in the dynamic markets the

bargaining power has shifted from the seller to the buyer who tends to dictate terms in regard to price, quality and delivery schedules and above all insists on appropriate credit terms. The availability of an adequate supply of credit at reasonable cost therefore greatly facilitates the task of the exporter. The difficult foreign exchange position in many countries makes it imperative for importers to ask for credits of varying duration and the credit terms offered often influence the buyer's choice of supplier and thus the sources of supply.

3. **A case study was conducted by NCAER on banking problems of Indian exporters.** Commercial banks are the institutions which exporters look upto for financing the production and sale. And for financing short term or long term credit on deferred payment to an importer one looks upto the EXIM Bank for fulfilling this role. For conducting business abroad Government has provided for subsidised financing which is given out at concessional rate compared to the rates prevailing in the market. The main component of subsidised export finance is called pre-shipment packing credit and post shipment credit.
4. A study of export trade financing in India with particular reference to commercial banks by Sen Gupta and Keshari estimated the role and share of commercial banks in export financing and issues in export financing. They suggest for increasing the flow of bank credit to export sector restructuring the interest rates. They also call for change in attitude of banks. The need for co-ordination between banks and financial institutions role of ECGC in timely settlement of claims are impetus for a favourable export business. The stress is on introducing the new innovative services of counter trade, overseas
5. Realizing the dearth of pertinent literature on working capital management, **Walker** in his study (1964) made pioneering effort to develop a theory of working capital management by empirically testing, though partially, three propositions based on risk-return trade-off of working capital management.

Proposition 1: If the amount of working capital is to fixed capital, the amount of risk the firm assumes is also varied and the opportunities for gain or loss are increased.

Proposition II: The type of capital (debt or equity) used to finance working capital directly affects the amount of risk that a firm assumes as well as the opportunities for gain or loss.

Proposition III: The greater the disparity between the maturities of a firm's debt instruments and its flow of internally generated funds, the greater the risk and vice-versa.

1.5 RESEARCH METHODOLOGY & LIMITATIONS:

To complete the present study the secondary data has been used and processed to present and interpret the facts meaningfully to help decisions makers to solve many problems, especially those concerning business transactions and industry. The secondary data was collected from annual reports of EXIM Bank of India, books, research publications, journals of international repute and also various official websites etc. As the study is based on the period of 5 years from 2015-16 to 2019-20 it is confined to financing services of EXIM Bank of India only Based on Secondary data. This study is based on secondary sources.

1.6 FINANCING STRATEGIES:

EXIM Bank offers the following Export Credit facilities to Indian companies, commercial banks and also overseas entities.

A. For Indian Companies executing contracts overseas: It includes Pre-shipment credit, Supplier's Credit, Credit for Project Exporters, Guarantee Facilities, Finance for Deemed Export.

B. For commercial Banks: It includes Rediscounting Facility, Refinance of the supplier's credit.

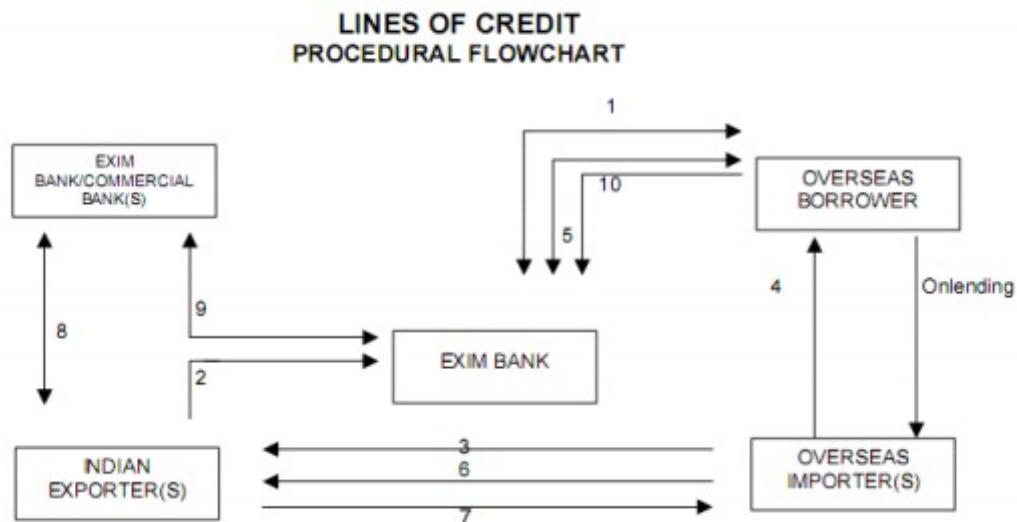
C. For Overseas Entities: It includes Buyer's Credit, Eligible Goods.

D. Finance for Export Oriented Units: It includes Term Finance (For Exporting Companies), Project Finance, Equipment Finance, Import of Technology & Related Services, Domestic Acquisitions of businesses/companies/brands, Export Product Development/ Research & Development, General Corporate Finance.

E. Working Capital Finance (For Exporting Companies): it is further classified in two sub groups one is Fund based strategies and another one is non fund based strategies. Fund Based strategies includes Working Capital Term Loans [< 2 years], Long Term Working Capital [upto 5 years], Export Bills Discounting, Export Packing Credit, Cash Flow financing and Non fund based strategies includes Letter of Credit Limits, Guarantee Limits.

F. Overseas Investment Finance: Finance for Indian Company's equity participation in the overseas Joint Venture (JV)/ Wholly Owned Subsidiary (WOS), Direct Finance (Term & Working Capital) to the overseas JV / WOS, Finance (for equity/debt component) for acquisition of overseas businesses / companies including leveraged buy-outs including structured financing options, Direct Equity by EXIM Bank in the overseas JV/ WOS of an Indian Company.

G. Lines of Credit: EXIM Bank extends Lines of Credit (LOCs) 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 LOCs, on its own, as well as, at the behest of Government of India.



Source: www.eximbankindia.in

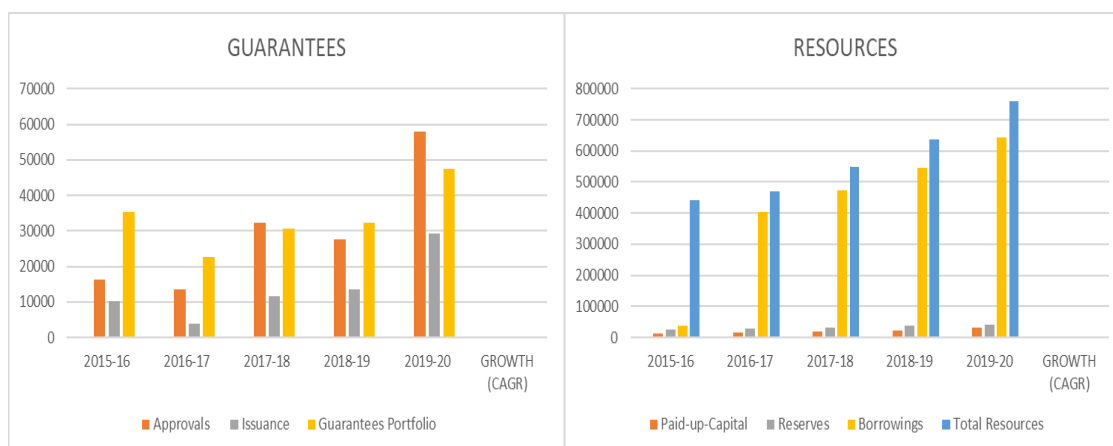
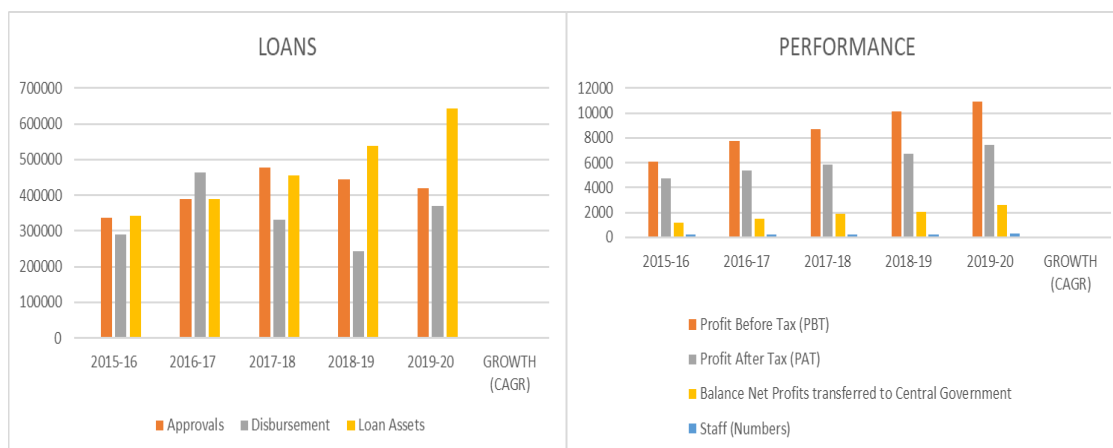
H. SME & Agri Finance: With a view to facilitate credit flow to the MSME sector at competitive rates, Exim Bank has put in place a foreign currency line of US\$ 100 million in association with the Asian Development Bank (ADB). This foreign currency line will be utilized to on-lend to eligible MSMEs, primarily in the less developed states of Assam, Madhya Pradesh, Orissa, Uttar Pradesh, Chattisgarh, Jharkhand, Rajasthan and Uttarakhand. The assistance to these MSMEs will help in increasing competitiveness in the relatively less developed states and help in integrating them with the export value chain.

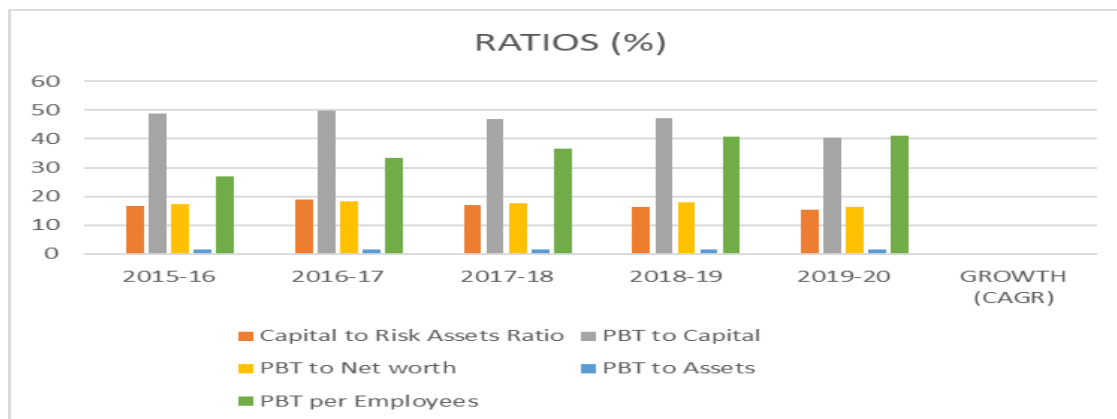
1.7 DATA ANALYSIS AND INTERPRETATION

TABLE NO 1.7 SHOWS THE FINANCING OF EXIM BANK FOR EXPORTING

PARTICULAERS/YEARS	(In Millions)					GROWTH (CAGR)
	2015-16	2016-17	2017-18	2018-19	2019-20	
LOANS						
Approvals	336385	388430	477984	444119	419185	17
Disbursement	289327	462485	332485	244233	370451	22
Loan Assets	341564	390357	456558	538898	643530	22
GUARANTEES						
Approvals	16184	13508	32165	27549	58075	21
Issuance	10315	3875	11535	13611	29378	20
Guarantees Portfolio	35401	22736	30557	32407	47440	13

RESOURCES						
Paid-up-Capital	14000	17000	20000	23000	30594	-
Reserves	24681	28316	32302	37003	41796	-
Borrowings	37203	405088	471918	546546	644848	-
Total Resources	442017	470715	547508	636730	761182	-
PERFORMANCE						
Profit Before Tax (PBT)	6101	7724	8677	10126	10888	-
Profit After Tax (PAT)	4774	5335	5836	6751	7423	-
Balance Net Profits transferred to Central Government	1157	1500	1850	2050	2630	-
Staff (Numbers)	232	232	244	253	275	-
RATIOS (%)						
Capital to Risk Assets Ratio	16.8	18.9	17.0	16.4	15.3	-
PBT to Capital	48.8	49.8	46.9	47.1	40.6	-
PBT to Net worth	17.2	18.4	17.8	18.0	16.4	-
PBT to Assets	1.5	1.7	1.7	1.7	1.6	-
PBT per Employees	26.9	33.3	36.5	40.7	41.2	-





INTERPRETATION:

In the realm of trade financing, which is the primary area of activity of most Export Credit Agencies around the world, EXIM Bank's Lines of Credit (LOCs) have served as an effective market entry mechanism. As on March 31, 2015, the Bank has in place 194 LOCs covering 63 countries in Africa, Asia, CIS and Latin America with credit commitments aggregating US\$ 11.68 billion. During 2019-20 the Bank extended Buyer's Credit facility aggregating 643530 million to 26 overseas companies. Disbursements under Buyer's Credit Programme aggregated 370451 million for exports to countries that include Uganda, United Kingdom, Zambia and Zimbabwe.

While the Bank has been partnering the Indian industry, it has also retained its focus on micro, small and medium enterprise (MSME) units. In this context, the Bank has taken several steps to enhance its presence in the MSME space Creation of a Technology and Innovation Enhancement and Infrastructure EXIM Bank has also reactivated its Export Marketing Services to help Indian MSMEs establish their products overseas and enter new markets. This programme, which works on a success fee basis, has been recast to be driven by a strong research backing involving, among others, a mapping of potentially exportable products with the prevailing international demand. In its efforts towards promotion of sustainable development the Bank has set up a separate group for promoting exports of products from rural grassroots business enterprises, essentially through capacity and skill development. The underlying objective is to create an enabling environment for rural micro enterprises to explore newer geographies leveraging effectively upon EXIM Bank's extensive institutional and trade promotion linkages. This initiative supplements the Bank's other support programmes which address the needs of relatively disadvantaged sections of the Indian society while seeking to create expanded opportunities for traditional crafts persons and artisans of the country, thereby contributing towards employment generation.

1.8 FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

1. EXIM Bank's Lines of Credit (LOCs) have served as an effective market entry mechanism.
2. . As on March 31, 2015, the Bank has in place 194 LOCs covering 63 countries in Africa, Asia, CIS and Latin America with credit commitments aggregating US\$ 11.68 billion.
3. During 2019-20 the Bank extended Buyer's Credit facility aggregating 643530 million to 26 overseas companies.

SUGGESTIONS

1. Personalised and customized services to Indian exporters and facilitating formation of long-term relationships with international business partners.
2. 2. Effective Matchmaking services and business counselling for Indian exporters in the field of trade financing
3. 3. A multi-pronged coordinated approach is required to facilitate increase in export credit by banks.

CONCLUSION

The achievements of the past three decades provide a strong foundation to EXIM Bank from where it will continue to catalyze India's international trade and investment. The Bank is committed to go beyond traditional financing and facilitate exports of a variety of products and services which have the potential to go overseas, by creating a niche for them in the international business arena. The Bank operates a wide range of financing programmes aimed at enhancing the export competitiveness of Indian companies. In special cases EXIM Bank is providing import finance programmes also. The Bank has in place an innovative facility to support globalization of rural industries through its grassroots initiatives. But it is very clear from the data disclosed by bank in its annual reports that Bank is more focused towards the project exports than other finance programs of the bank. Therefore, the exporters (other than project exporters) are not getting satisfactory financing services from EXIM Bank. They rely on other commercial banks to get the credit for their export orders.

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