Export Promotion Incentives

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Need

After independence, India's need for foreign exchange has become almost unlimited. The main cause of short fall of foreign exchange is import of capital goods such as heavy equipment, plant & machinery etc. The other cause is very little foreign exchange earning through traditional export of items like tea, jute etc. All this leads to take some firm and concrete steps to promote export. Because the short fall of balance of payment can easily recovered through increasing in export and not by borrowing money from other countries.

Role of the Government

Government took this matter very seriously and trying level best to stepping up exports. For this Government of India, through the R.B.I. has arranged to provide to the exporters Compensatory (cash) Assistance for price differentials, Duty Drawback etc. on certain exports.

Besides this, there are number of autonomous organisations functioning as Export Promotion Councils under the Ministry of Commerce and Textiles, Govt. of India.

Role of R.B.I.

Reserve Bank of India provides many schemes for promotion of exports. Some of them are stated below;

Pre-shipment Credit Scheme

Export Bills Credit Scheme

Export Credit (Interest Subsidy) Scheme

R.B.I. also arranged guarantee to bankers for the pre-shipment or post-shipment finance with the help of Export Credit Guarantee Corporation Ltd.

Role of Exim Bank

Exim Bank refers to Export-Import Bank. For the purpose of export promotion, this bank provides terms credit facilities for Indian exports of machinery and Engineering goods on deferred payment basis. Exim bank also provides bank guarantee on behalf of Indian contractors undertaking construction and turnkey projects abroad. Besides this the merchant-banking, counseling services to Indian exporters especially exporters of machinery and engineering goods are different services provided by Exim banks.

Role of Commercial Bank

Commercial banks also plays an important part in export promotion for e.g. pre-shipment and/or post-shipment credit to exporters and/or furnishing guarantees on behalf of exporters, export bills etc. Bankers may establish credits for Indian importers in favour of foreign suppliers of capital goods, raw materials for export goods etc.

Export bills supported by shipping documents can not be send directly to the foreign by buyers. It has to be negotiated or lodged for collection with a banker authorised to deal in foreign exchange. Commercial banks thus plays an important part in promoting exports.

Export Incentives Offered by Govt.

Following are different incentives offered by Government to the Indian exporters.

Cash Assistance

Duty Drawbacks

Import Entitlement

Let us look each of them in brief.

Cash Assistance: To off set the disparities in prices faced by Indian products in the international competitive markets, compensative support in the form of payment of value of the exports extended by the government. Cash assistance varies from 5% to 20% of f.o.b. These advances are eligible for interest-free full finance from the RBI.

Export Incentives Offered by Govt.

Duty Drawbacks: A duty drawback is rebate allowed to an exporter on import duty and/or excise duty paid by him for purchase of raw materials and components imported which are used in the manufacture of products for export. Duty drawbacks are of two types.

-Drawbacks on duty paid on imported goods which are exported as such

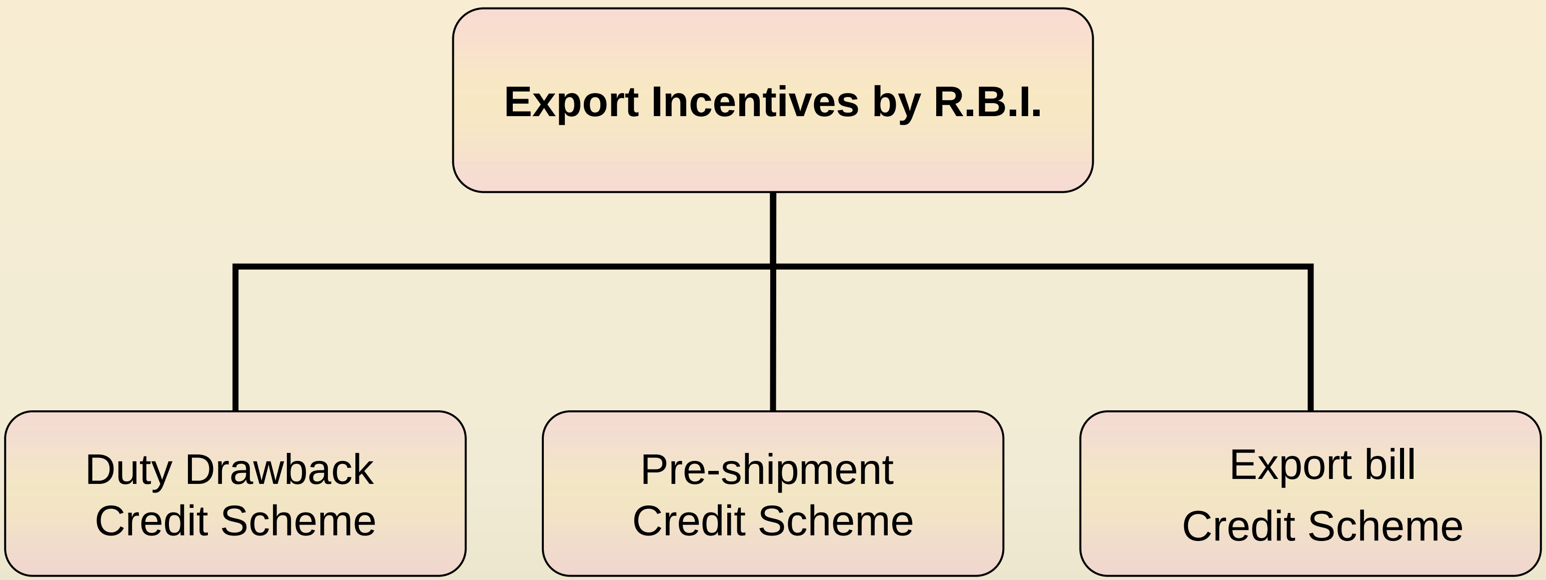
-Drawbacks on products manufactured out of imported or indigenous raw materials on which custom/excise duty has been paid. A claim for drawback should be filed to the controller of customs or the central excise as the case may be.

Export Incentives Offered by Govt.

Import Entitlement: This is an import license issued to an exporter as an incentive, only for the export of specified engineering products, chemicals, carpets etc. The import entitlement is available up to 70-75% of the f.o.b. This entitlement is transferable to another manufacturer but not to merchant trader.

Export Incentives by R.B.I.

Following are different incentives offered by RBI.



Export Incentives by R.B.I.

Duty Drawback Credit Scheme:

With effect from Feb. 1976 Reserve Bank introduce it's duty drawback schemes. Under this scheme scheduled banks can grant to exporters an advance for 90 days against their duty drawback entitlements. Interest may however be covered at lower rate for 90 days on cash incentives when covered by ECGC guarantee.

Such advances are eligible for full refinance from RBI U/S 17 (3B) up to maximum period of 90 days from the date of advance. If the advance is not adjusted within 90 days it is treated as overdue. If the account is adjusted out by local funds domestic rate of interest is chart from the date of advance.

Export Incentives by R.B.I.

Pre-shipment Credit Scheme:

U/s 17 (3A) of the Reserve Bank of India Act, 1934 the scheme was introduced. Under the scheme RBI allows advances to scheduled banks up to the scheme 100% of the pre-shipment credits granted by them subject to minimum of Rs.1 lakh. For this purpose RBI sanctions application on over all limit for 1 year reckoned from 1st October to 30th September renewable from year to year. The export credit should bear interest at a rate not exceeding the sealing rate fixed by RBI for time being.

Export Incentives by R.B.I.

Export Bills Credit Scheme:

This scheme was introduced by RBI in March 1963 U/s 17 (3A). Under this scheme, any licensed scheduled bank authorised to deal to foreign exchange is eligible for this credit against;

1. Its promissory note repayable of demand
2. A declaration in writing that it holds and will, as long as any such loan or advance remains unpaid.

The documents which has to execute and produce by borrowing bank are;

1. A stamped agreement, setting out the conditions governing the advance
2. A demand promissory note
3. A certificate copy of the boards resolution, authorising certain official of the bank to borrow.

Statement furnishing particulars of the eligible export bills held should be submitted to the Reserve Bank fortnightly.

Export Assistance by Exim Bank

A. Long Term Finance Guarantees: The international finance wing provides this type of finance and guarantees for the export of capital and engineering goods and services on deferred payment basis.

B. Refinancing of Export Credits: The Exim bank provides refinance to eligible banks against medium or long term export credits should be granted for periods exceeding 6 months but not exceeding 5 years for medium term project and 10 years in case of long term project. The refinance could be up to 100% of the export credit without a prescribed minimum or maximum limit. Service tax on export is to be abolished.

Export Credit Insurance

In order to provide export credit insurance support to Indian exporters; ECGC was set up, wholly owned by Govt. of India. It functions under the administrative control of the Ministry of Commerce and is managed by Board of Directors representing Govt. Banking, Insurance Trade, Industry etc.

This insurance also creates a favorable climate in which exporter can hope to get timely and liberal credit facilities from banks in India.

Covers Issued by ECGC

The covers issued by ECGC are policies issued to the exporter and guarantee issued to banks. Some of them are;

A. Standard Policy

B. Specific Policy

C. Financial Guarantee

D. Special Scheme Guarantee

Out of above, standard policy is issued to exporters in export on short term credit i.e. credit not exceeding 180 days. This policy covers both commercial and political risk from the date of shipment. Following are some of the commercial as well as political risk.

Covers Issued by ECGC

Following are some of the commercial as well as political risk;

Commercial Risks:

- Insolvency of the buyer
- Buyer’s failure to accept the goods

Political Risk:

- War, civil war, civil disturbances in buyer’s country
- New import restriction or cancellation of a valid import license

Covers Issued by ECGC

Following are some of the risks that are not normally covered:

- Causes inherent in the nature of the god
- Exchange rate fluctuations
- Commercial disputes including quality disputes raised by the buyer
- Loss or damage to goods which can be covered by general insurance

Covers Issued by ECGC

Shipments cover: the shipment policy is meant to cover all the shipment that may be made by an exporter on credit term during a period of 24 months ahead. This policy can not be issued for selected shipments, buyers or market.

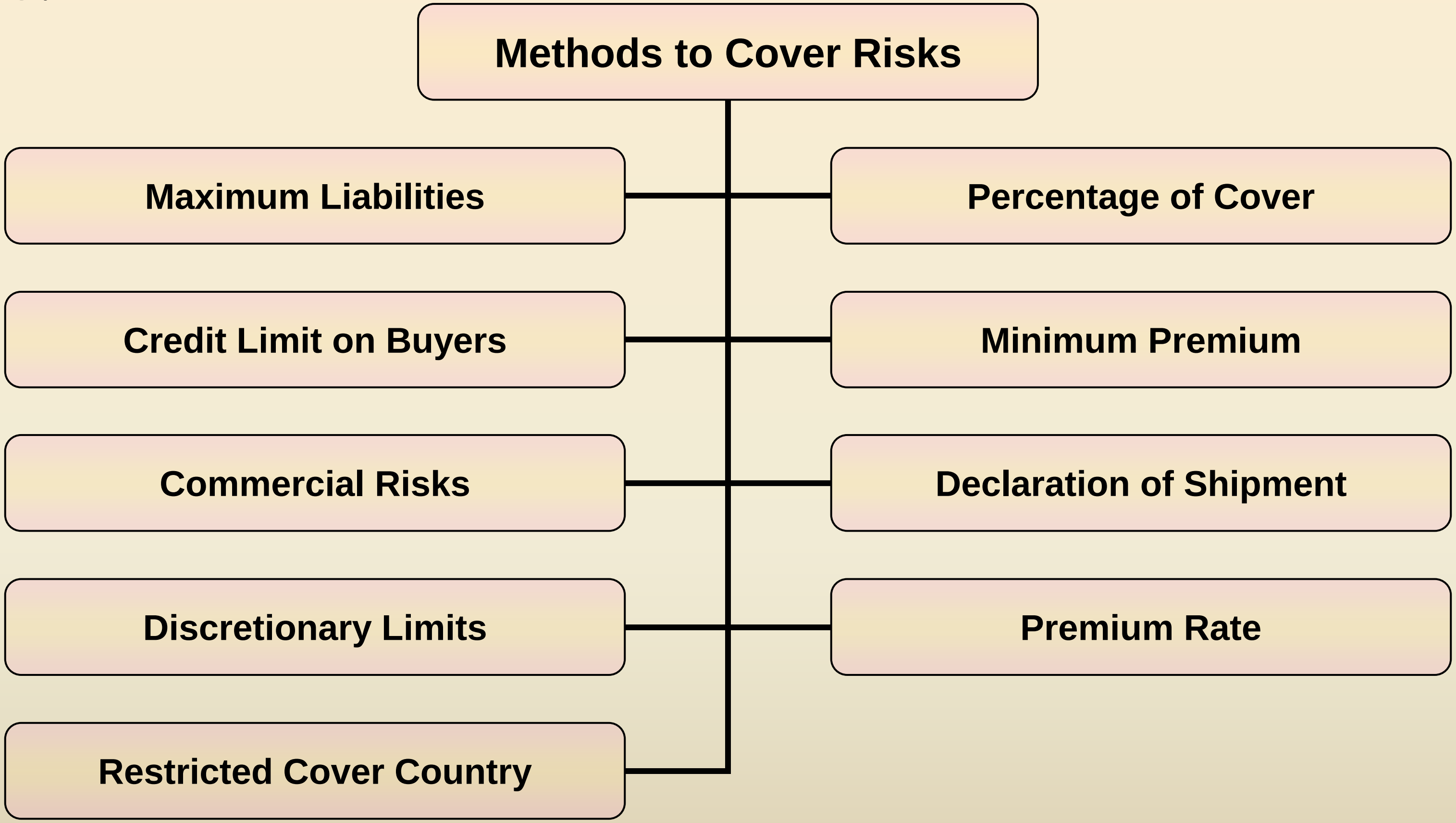
Shipments to associates: shipments to associates refers to foreign buyers in whose business the exporter has a financial interests, are normally excluded from policy. Where the associates are the public related companies in which the exporters share holding does not exceed 40% covers can be provided against insolvency risk in addition to all the political risks.

Covers Issued by ECGC

<u>Contract cover</u>: the standard policy provides cover only for the post-shipment cover for pre-shipment losses, which may be sustain by an exporter due to impossibility of exporting goods already manufactured. These risks are not covered because the risk is very low and such goods can be sold in the local market.

How The Risks Are Covered

Following chart explains different methods to cover the risks.



Reporting Defaults

When any export bill remain unpaid after 30 days, ECGC policy holder must take prompt action to minimise loss. He has to submit the details of all such bills to ECGC in monthly statement in prescribed form. The other important points on this are summarised as below.

1.Extension of Credit period, changing Tenor or Resale of goods:

Granting extension for payment, covering payment terms from DP to DA basis requires prior approval of ECGC. If exporter decides to bring back goods to India, ECGC will make 90% of reshipment expenses.

Reporting Defaults

Time of Payment of Claim:

If an overseas buyer goes insolvent the exporter becomes eligible for a claim one month after his loss is admitted or four month from the due date whichever is earlier.

Settlement of Claim:

When the claim is admitted ECGC, the settlement amount will be paid to the exporter through his banker who handled the relative export bills.

Reporting Defaults

Banks Responsibility:

On receipt of claim amount, bank is expected to adjust the proceeds towards their outstanding post-shipment export dues, if any.

Service Policy:

When any Indian firm offer services to foreign parties , they would be exposed to payment risks similar to those involved in export of goods. Service policy offer protection against such payment risks. This policy is designed on the lines of ECGC insurance policy covering export of goods.

Financial Guarantees

Exporter requires sufficient financial support to carry out their export contracts. To meet the different requirements of exporters, ECGC evolved different types guarantees. Some of them are stated below.

Packing Credit Guarantee Any loan given to exporter for manufacture against firm order or L/C qualifies for this guarantee. This policies issued by ECGC to bank on exporter wise.	**Export Production Finance Guarantee** The main purpose of this guarantee is to enable banks to sanction advance at the pre-shipment stages. Banks having WTPCG are eligible concessionary premium rate and higher % cover.
Post-shipment Credit Guarantee This finance given by banks to exporter against purchase /discount of export bills. It is necessary that exporter should hold suitable policy of ECGC to cover the overseas risks.	**Export Finance Guarantee** This guarantee covers post-shipment advances granted by banks against export incentives. Banks having WTPCG are eligible concessionary premium rate and higher % cover.

Special Schemes

Some of the special schemes depicted below.

Transfer Guarantee: This guarantee covers both political as well as commercial risks at the option of the bank.

Exchange Fluctuation Risk Cover: This cover is available for differed payments scheduled over a period of 12 months or a year up to maximum of 15 years. Losses due to exchange fluctuations in excess of 2% up to 35% of the reference rate will be compensated by ECGC.

Whole Turnover Guarantee Cover: Banks are availing Whole Turnover Post-Shipment Guarantee (WTPSG) and Whole Turnover Packing Cover Guarantee (WTPCG) from ECGC to cover major portion of their credit risks at pre-shipment and post-shipment stages respectively.

Exception to Guarantee Cover

Following are some of the categories which are not eligible for the guarantee cover;

- Public sector undertakings of the government of India
- Export bills under confirmed L/C
- Export bill under L/C
- Advances granted against duty drawback, cash incentives etc.
- Advances granted on differed terms of payment, turnkey projects, service contracts etc.

Features of Whole Turnover Guarantee

As it is a contract between bank and ECGC and it protects the bank in respect of losses incur while granting pre or post shipment advances to the exporter. Following are some of the silent features of WTG:

Features of WTG

- Advances Covered
- Maximum Liabilities
- Discretionary Limits
- Reporting of Limits
- Monthly Declaration
- Claims
- Extension of Due Dates
- Reporting of Default
- Specific Approval List
- Interests
- Cancellation an Reduction of Cover
- Time Limit for Filling Claim

Documents for Claim Form

Below mentioned list describes some of the documents to be attached to the respective claim form;

Copy of the sanction letter

Copy of the ledger extract for the period commencing 6 months prior two the date of granting first of advance in default up to date.

Copy of the legal notice and of the pliant and exporter's reply if any.

Copies of the communication in which limit was reported to ECGC

Certificate of Chartered Accountant as to the business and exports turnover of the exporters.

Export Promotion Institutions

Government of India has set up certain institutions to advice not only to central government but also to local authorities, public bodies and exporters on matters concerning exports. Following are some of the important export promotion institutions:

1.Export Promotion Advisory Council:

This is a combination of Industrials and commercial magnets. It is preceded over by representative of Ministry of foreign Trade, Government of India. The councils supplemented by four regional export promotion advisory committee. Composed of businessmen at Kolkata, Mumbai, Chennai and Cochi.

Export Promotion Institutions

2.The Trade Development Authority (TDA):

The TDA was set up in the public sector in 1970. The services of the organisation are available to individual units in connection with the export of particular products. At present TDA helps to promote the export of following items.

- Equipments and components(Electronic)
- Bicycle and bicycle components
- Automobile and ancillaries
- Stainless steel cutlery
- Cand, fruit and juices

The number of TDA clients is more or less 200

Economic and Technical Cooperation Agreements

India has entered into agreements for economic and technical co-operation with other countries.

Name of Country	Year of Agreement	Description of Agreement
Turkey	1978	a) Exchange of exports in industrial and agricultural fields. b) Rendering technical training and consultancy services c) Setting up joint ventures etc
Mauritius	1978	a) Economic, technical and cultural co-operation through a joint commission b) India will help in setting up Industry in Mauritius for production of electronic goods
Malaysia	1979	a) Economic and technical co-operation in the field of industry, technology, science and agriculture etc
Indonesia	1979	a) Mutual co-operation for the purpose of maximum utilisation of the natural resources

Concessions Granted to Exporters

In pursuance of its exports promotion policy; the government of India allowed number of concessions to the Indian exporters. Some of them are stated below.

Abolition of export duty on tea, black paper, soft cotton waste.

Allowing the export of:

a) Wheat products such as ata, maida, suji, rava

b) Basmati rice subject to minimum export price, meat and live buffalos, ship and goats subject to prescribed sealing and floor prices.

Concessions Granted to Exporters

Enlarging the list of non-traditional items on the export of which cash assistance is available.

Raising the minimum foreign exchange allotment to exporters from Rs.75,000 to Rs.1 lakh under the Blanket Permit Scheme.

Reducing the minimum annual exports turnover limit for the issue of exchange permit for foreign travels for export promotion purposes.