

# Role of Exim Bank for Development of International Business - A Study

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## Abstract

This paper author looks at the role of Exim Bank in maintaining and for the ring the international business of India and the growth of import and exports. **EXIM bank** of India was established by Government of India in 1982 under the **Export-Import Bank** of India Act, 1981 for the purpose of financing, facilitating and promoting India's international trade. The **bank** conducts export market studies and assists Indian Joint ventures in third countries. Exim bank getting possession represents money and possesses all the characteristics of money which it represents. For example, it is not tainted by any defect or fraud in the source from which it flows, so long as its acquisition is bonafide and for value. It also passes through delivery like cash, and the person in possession of the instrument can sue on it in his own name. It also possesses the characteristics of a contract as it embodies either an order or a promise to pay money. The capacity of the parties to it, the liability of persons on it and the discharge of such liabilities are governed mostly by rules belonging to the domain of contracts. The law relating to negotiable instruments is the law of commercial world legislated to facilitate the mercantile commercial activities, thereby making provision of giving sanctity to the instruments of credit which could be deemed to be convertible into money and easily exchangeable from one person to another as well as easily transferable from one banking institution to another.

The above quoted statement made before the Bills of Exchange Act, 1882, brings out clearly the process of evolution of mercantile law which includes the law of negotiable instruments. The mercantile community found in such instruments an easy mode of payment of money by way of endorsement and delivery or by mere delivery of such instruments. With the expansion of trade and commerce, negotiable instruments have assumed international importance. In the absence of such negotiable instruments, the trade and commerce activities, in the contemporary world, are likely to be adversely affected as it is impracticable, infeasible and unworkable for the trading community to carry with it the bulk of the currency in force. Negotiable instruments are in fact the instruments of credit being convertible, exchangeable and redeemable on account of legality of being negotiated and are easily passable from one hand to another, from one state to another, from one country to another.

*Keywords— Exim, India, export, import, liabilities, money and possesses, cheques, Bills of Exchange Act*

## Introduction

Export-Import Bank of India (EXIM Bank) is a specialized financial institution, wholly owned by Government of India, set up in 1982, for financing, facilitating and promoting foreign trade of India. Including the share capital of ` 1,300 crore received during the year from Government of India, the paid up capital as on March 31, 2015, stood at ` 5,059 crore and the Net Worth stood at ` 9,902 crore. Profit after tax of the Bank for the year 2014-15 amounted to ` 726 crore.

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 developmental and infrastructure projects,

equipments, goods and services from India, on deferred credit terms. EXIM Bank has laid strong emphasis on enhancing project exports, the funding options for which have been enhanced with introduction of the Buyer's Credit-National Export Insurance Account (BC-NEIA) program. The Bank facilitates two-way technology transfer by financing import of technology into India, and investment abroad by Indian companies for setting up joint ventures, subsidiaries or undertaking overseas acquisitions. To promote hi-tech exports from India, the Bank has a lending programme to finance research and development (R&D) activities of export-oriented companies. During the year ended 31st March, 2015, EXIM Bank sanctioned loans of ` 57,684 crore, while disbursements amounted to ` 38,508 crore. Loan Assets stood at ` 86,953 crore as on March 31, 2015.

During the year, the Bank issued India's first USD denominated Green bonds with a benchmark size of US\$500 million. During the year, an Export Development Fund [EDF] facility, a special fund, established by GoI under the Exim Bank Act and administered by Exim Bank, to sanction loans in the interest of international trade towards meeting strategic objectives was put to use. Exim Bank under the GoI's 'Act East Initiative' undertook a Mission to CLMV countries, consequent to which a Project Development Company is being set up, to be followed by a Project Development and Facilitation Framework. Exim Bank, IL&FS, AfDB and SBI jointly floated a Project Development Company in Africa, based in Mauritius. The Bank has entered into a Cooperation Agreement on Innovation with the four major development Banks of the BRICS countries which is expected to promote intra-BRICS cooperation in innovation financing. The Bank, with its diverse programmes, caters to different segments of exporters and the export cycle. The Bank provides assistance in helping Indian firms in their globalization efforts by locating overseas distributor(s)/ buyer (s)/ partner (s) for their products and services. Exim Bank also lays special emphasis on enhancing export capabilities and international competitiveness of Indian companies through its various Advisory Services.

### **Objective:**

This paper author intend to study the role of exim Bank in in development of import and exports of India and its various subsidiaries through which the bank operates

### **Exim Bank creation to further trade growth**

Apart from the validity, sanctity and applicability of the above bare mandates of statutory law, there are some larger issues which could be and should be appropriately addressed in the context of the topic. It may be recalled that Chapter XVII comprising sections 138 to 142 was inserted into the Act by the Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988 (66 of 1988). The object of bringing Section 138 into the statute was to inculcate faith and build confidence in the efficacy of banking operations and credibility in transacting business through negotiable instruments by minimizing cash transactions.

It was to enhance the acceptability of cheques in settlement of liabilities by making the drawer liable for stringent penalties in case of bouncing of cheques due to insufficient arrangements made by the drawer, with adequate safeguards to prevent harassment of genuine drawers. It may also be pertinent to add here that when the offence was originally inserted in the statute in 1988, it carried the provision for imprisonment up to one year, which was revised to two years following the amendment to the Act in 2002. It is thus quite manifest and discernible that the legislative purport and intent behind incorporation of the provision of section 138 and the subsequent amendment with regard to enhancement of punishment, was to provide a strong and efficacious criminal remedy in order to deter the worryingly high incidence of dishonour of cheques.

While the possibility of imprisonment up to two years provides a remedy of a punitive deterrent nature, the provision for imposing a fine which may extend to twice the amount of the cheque serves a compensatory purpose. What must be remembered, reiterated and re-emphasised is that the dishonour of a cheque can be best described as a regulatory offence that has been put into place to serve the public interest in ensuring the reliability of these instruments of credit. The immediate impact of this offence is usually confined to the private parties involved in commercial transactions but in the broader. The Export and Import Bank of India, popularly known as the EXIM Bank was set up in 1982. It is the principal financial institution in India for foreign and international trade. It was previously a branch of the IDBI, but as the foreign trade sector grew, it was made into an independent body.

The main function of the Export and Import Bank of India is to provide financial and other assistance to importers and exporters of the country. And it oversees and coordinates the working of other institutions that work in the import-export sector. The ultimate aim is to promote foreign trade activities in the country.

### **Export trade Exim Bank**

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 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. Vanhorne in his study (1969) recognizing working capital management as an area largely lacking in theoretical perspective, attempted to develop a framework in terms of probabilistic cash budget for evaluating decisions concerning.

Management of Financial Institutions in India by G. Ramesh Babu explained the management of financial institutions with the help of Indian financial system money and capital market and sources of raising funds, role of RBI, Credit Authorization Schemes and many aspects of Indian Financial System. 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 privatisation, 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 reforms 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.

### **Exim Bank's Marketing Advisory Services (MAS)**

Group plays a promotional role to create and enhance export capabilities and international competitiveness of Indian companies. The Group leverages the Bank's high international standing, in-depth knowledge and understanding of the international markets and well established institutional linkages. Its physical presence supports Indian companies in their overseas marketing initiatives on a success fee basis. The fees for MAS is payable in Indian Rupees and applies to the subsequent orders from the client introduced by the Bank for a period of at least 2 years.

Key roles of Marketing Advisory Services:

- To help Indian exporting firms in their globalisation efforts by proactively assisting in locating overseas distributors/buyers/partners for their products/services
- To identify opportunities overseas for setting up plants or projects or for acquisition of overseas companies

Exim Bank has successfully placed a range of products in overseas as well as domestic markets. Products like handmade paper, handicrafts, vegetables and fresh fruits, garments, home décor, marine products, spices and agri-equipments are placed in Singapore, Africa, Brazil, Middle East, and US. The MAS Group also organizes workshops and supporting events to facilitate design, and package their products for the international markets.

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.

Working Capital Management and Control: Principles and Practice by Satish B. Mathur describe in his book working capital management and control in two parts. In the first part of his book he explained fund based working capital finance, different working capital policies, disbursement and follow up of working capital finance by bank and in the second part of the book contains the non fund based working capital financing which include letter of credit, bank Guarantees etc. Financing International Trade By James Calvin Baker untangle in his book about the Indian Financing Institutions that are helping the Indian Economy to flourish. He manifests the Export Import Bank of India in this relation and explained that how this institution was established and working since 1982 by fulfilling the purpose of providing the finance, facilitate and promote foreign trade. 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 has

been pointed out and suggestions have been given to provide optimum export credit to Indian exporters. Goods eligible for financing are listed in Appendix V, illustratively. Goods in Group A, comprising of capital and producer goods, are eligible for term credit even beyond two years; Group B goods, comprising of consumer durables and industrial manufactures normally exported on cash basis, are eligible for credit upto a maximum period of two yrs.

### **Exim Bantus financial facility**

Indian companies can avail themselves of Exim Bantus financial facility, against deferred credit extended to overseas buyers of Indian consultancy, technology and other services. This would help in enlarging the market for Indian consultancy exports. In barter trade, there might be no need for financing, but there could, yet, be financing needs if the manufacturing cycle was beyond six months. Such a transaction having received the necessary regulatory approvals, the pre-shipment financing requiring credit beyond six months, could be eligible for financing from Exim Bank. The Bank's assistance will be available for acquisition of land, building, plant and machinery and other miscellaneous fixed assets along with related services, margin money for working capital and preliminary and preoperative expenses? also for setting up new projects or for expansion/diversification of existing projects.

"Deemed Exports" are eligible, for support under the Bank's various financing programmes. Exim Bank's export financing facilities include post-shipment deferred credit, bridge financing in foreign currency for project exports, term loans for units in Free-Trade Zones, and 100 per cent Export-Oriented Units, rupee loans for working capital, issue of guarantees.

The second major initiative came in the form of an agency credit line of the 15 million with International Finance Corporation (IFC) , Washington. Under this Scheme, financial assistance is available in the form of foreign -currency loans, from IFC, to private sector-small and medium units - for investment in plant and machinery, product and process know-how. The Bank provides rupee term loans on a machinery basis to assist domestic enterprises. It is the first-ever agency line of credit from IFC to an Indian financial institution. In another initiative, the Bank, in its continual endeavour to help domestic exporters, started a quarterly publication entitled "Export Advantage". The publication aims at providing information on export opportunities, highlighting international developments that have a bearing on Indian exports and inviting attention to successes of exporters.

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 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 2014- 15, the Bank extended Buyer's Credit facility aggregating 33.20 billion to 26 overseas companies. Disbursements under Buyer's Credit Programme aggregated 26.57 billion 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 successfee 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..

## 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 globalisation 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. Exim Bank's Vision has evolved from a product-centric approach with Export Credits and Export Capability Creation, to a more customer-centric approach by offering a comprehensive range of products and services to empower businesses at all stages of a company's business cycle. Today, we develop commercially viable relationships with a target set of externally oriented companies through a comprehensive range of products and services, aimed at enhancing their internationalisation efforts. Going ahead, we aspire to utilise our leadership and expertise in Export Finance to make a lasting difference to Indian companies with global aspirations. The Bank's Mission is to facilitate globalisation of Indian Business.

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