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February 28, 1999

To the Chairmen/Chief Executives of
all Commercial banks

Dear Sir,

**Export Credit in Foreign Currency at internationally
competitive rates – Simplification of procedures**

As you are aware, with a view to making available credit to exporters at internationally competitive rates, RBI had introduced, in 1993, the schemes of "Pre-shipment Credit in Foreign Currency" (PCFC) and "Rediscounting of Export Bills Abroad" (EBR). (cf. IECD Circulars Nos.EFD.14 dated October 6, 1993 and EFD.21 dated November 8, 1993). Thus Export Finance in foreign currency is available to cover both domestic as well as imported inputs for the goods to be exported.

2. As indicated in our Circulars referred to above, for the purpose of the Schemes, banks have been permitted to utilise foreign currency funds in Foreign Currency Non-Resident (Banks) [FCNR (B)] Accounts Scheme, Exchange Earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency (RFC) Accounts and Escrow Accounts. Banks have also been allowed to arrange lines of credit from banks abroad or from banks in India for funding such operations.

3. The Schemes envisage export credit being made available at internationally competitive rates in all currencies. Normally, Export Credit in foreign currency is extended in US Dollar, Pound Sterling, Deutsche Mark and Japanese Yen. Now, with the launching of Euro, on January 1, 1999, the facilities can be made available in Euro also.

4. As per extant instructions, banks are free to extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. Thus, an exporter can avail of PCFC in US Dollar against an export order invoiced in Euro. While fixing the minimum lot in sanctioning PCFC, banks have been advised to take into account the needs of small exporters looking to the operational convenience. Banks are required to charge a spread of not more than 1.5 per cent over LIBOR. From January 1, 1999, on fresh transactions, banks have been permitted also to use Euro Libor/Euribor, wherever applicable, as the benchmark for the purpose. 'Running Account' facility can be extended under PCFC in respect of all commodities to exporters with good track record.

5. In order to make the Schemes more popular and accessible to as many exporters as possible, the following Guidelines are issued. These should be brought into effect immediately.

[A] Simplification of Procedures

(i) Banks should simplify the Application Form and reduce data requirements from exporters for assessment of their credit needs, so that exporters do not have to seek outside professional help to fill in the Application Form or to furnish data required by the bank.

(ii) Banks should adopt any of the methods, viz. Projected Balance Sheet method, Turnover method or Cash Budget method, for assessment of working capital requirements of their exporter-customers, whichever is most suitable and appropriate to their business operations.

(iii) In the case of Consortium Finance, once the consortium has approved the assessment, member banks should simultaneously initiate their respective sanction processes.

[B] 'On Line' Credit to Exporters

(i) Banks provide 'Line of Credit' normally for one year which is reviewed annually. In case of delay in renewal, the sanctioned limits should be allowed to continue uninterrupted and urgent requirements of exporters should be met on ad hoc basis.

(i) In case of established exporters having satisfactory track record, banks should consider sanctioning a 'Line of Credit' for a longer period, say, 3 years, with in-built flexibility to step-up/step-down the quantum of limits within the overall outer limits assessed. The step-up limits will become operative on attainment of pre-determined performance parameters by the exporters. Banks should obtain security documents covering the outer limit sanctioned to the exporters for such longer period.

(iii) In case of export of seasonal commodities, agro-based products etc., banks should sanction Peak/Non-peak credit facilities to exporters.

(iv) Banks should permit interchangeability of pre-shipment and post-shipment credit limits.

(v) Term Loan requirements for expansion of capacity, modernisation of machinery and upgradation of technology should also be met by banks.

(vi) Assessment of export credit limits should be 'need based' and not directly linked to the availability of collateral security. As long as the requirement of credit limit is justified on the basis of the exporter's performance and track record, the credit should not be denied merely on the grounds of non-availability of collateral security.

[C] Waiver of Submission of Orders or L/Cs for Availing Pre-shipment credit

Banks should not insist on submission of export order or L/C for every disbursement of pre-shipment credit, from exporters with consistently good track-record. Instead, a system of periodical submission of a Statement of LCs or Export Orders in hand, should be introduced.

[D] Handling of Export Documents

Presently, banks are required to obtain, among others, original sale contract/confirmed order/proforma invoice countersigned by overseas buyer/indent from authorised agent of overseas buyer for handling the export documents as per Exchange Control regulations. In future, submission of such documents need not be insisted upon at the time of handling the export documents, since the goods have already been valued and cleared by the Customs authorities,

except in the case of transactions with Letters of Credit (LC) where the terms of LC require submission of the sale contract/ other alternative documents.

[E] Fast Track Clearance of Export Credit

(i) At specialised branches and branches having sizeable export business, a facilitation mechanism for assisting exporter-customers should be put in place for quick initial scrutiny of Credit Application and for discussions for seeking additional information or clarifications.

(ii) Banks should streamline their internal systems and procedures to comply with the stipulated time limits for disposal of export credit proposals and also endeavour to dispose of export credit proposals ahead of the prescribed time schedule. A flow chart indicating chronological movement of Credit Application from the date of receipt till the date of sanction, should also accompany credit proposals.

(iii) Banks should delegate higher sanctioning powers to their branches for export credit.

(iv) Banks should consider reducing at least some of the intervening layers in the sanctioning process. It would be desirable to ensure that the total number of layers involved in decision-making in regard to export finance does not exceed three.

(v) Banks should introduce a system of 'Joint Appraisal' by officials at branches and administrative offices, to facilitate quicker processing of Export Credit proposals.

(vi) Where feasible, banks should set up a 'Credit Committee' at specialised branches and at administrative offices, for sanctioning working capital facilities to exporters. The 'Credit Committee' should have sufficiently higher sanctioning powers.

[F] Publicity and Training

Presently, export credit at internationally competitive rates is made available in foreign currency at select branches of banks. In order to make the Scheme more popular, wide publicity should be given by banks and more number of branches should be designated for making available export credit in foreign currency. Officers at operating level should be provided with adequate training.

[G] Customer Education

(i) Banks should bring out a Hand Book containing salient features of the simplified procedures for sanction of Export Credit in Foreign Currency at internationally competitive rates for the benefit of their exporter-clients.

(ii) To facilitate interaction between banks and exporters, banks should periodically organise Exporters' Meet at centres with concentration of exporters.

[H] Monitoring of Implementation of Guidelines

Banks should set up an internal team to visit branches periodically, say, once in two months to gauge the extent of implementation of the Guidelines.

6. Please acknowledge receipt of this Circular, and advise us, within a fortnight, the arrangements made by you to implement the said Guidelines. As you are aware, the Government of India and the RBI attach utmost importance to exports, and it is essential to ensure that exporters' credit requirements are met in full and promptly, and also at most competitive rates. In this connection a reference is also invited to the Instructions/Guidelines issued by the RBI earlier, a gist of which is furnished in the Annexure.

7. We shall be glad if you will please ensure implementation of the Instructions/Guidelines, both in letter and spirit, so as to bring about a perceptible improvement in credit delivery and related banking services to export sector.

Yours faithfully,

(M.G. Srivastava)
Chief General Manager

Annexure

Gist of some of the important circulars issued by us so far on export credit and related aspects

<u>Circular No. and date</u>	<u>Gist of the contents</u>
DBOD.No.BM.680 dt. 7-4-69	Opening of export counsel offices to guide exporters
DBOD.No.ECC.BC.53 dt. 17-4-78	Extending timely and adequate finance to exporters, to guide and educate them on procedural formalities esp. small exporters, to avoid delay in processing applications for export credit, to post trained staff at branches, senior officials to review working of export divisions, etc.
IECD.No.EFD.BC.24 dt. 28-5-1984	To tone up administrative machinery in order to provide guidance to exporting community in all procedural matters concerning documentation, export finance, exchange rates and exchange control, to ensure that staff are well versed with RBI directives, FEDAI Rules, Exchange Control Manual, etc.
IECD.No.EFD.BC.191 dt. 24-11-87	To ensure that credit requirements of export sector are promptly and adequately met, to delegate enough powers to branches, etc.
IECD.No.EFD.BC.40.. dt. 4-3-91	Provision of timely and adequate credit, to avoid piece-meal queries, banks' Board to review the performance of banks, etc.

IECD.No.EFD.17 dt. 31-8-91	To equip all branches handling export business with necessary infrastructural facilities, to ensure that bank charges are as per FEDAI norms, to avoid delay in despatching documents, etc.
IECD.No.8 dt. 5-11-92	To ensure that no worthwhile export order suffers for want of finance, to ensure sufficient delegation of powers down the line, to adopt flexible approach in granting export credit limits
CPC.BC.125 dt. 11-11-92	Chief Executives of banks to personally assume responsibility of monitoring export performance, cases of rejection of export credit proposals to be brought to the notice of Chief Executives, etc.
IECD.No.EFD.22 dt. 8-12-93	To periodically review powers delegated to branches, to dispose of credit proposals within prescribed time limits, to conduct periodical seminars and workshops to educate exporters, to submit quarterly review notes on export credit to Board of Directors, etc.