

## AN ANALYSIS OF FINANCIAL FACILITIES OF EXIM BANK OF INDIA

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### Abstract

Export sector has a huge role in any economy of the world because it is called a growth engine. After 1982 in India, Export Import Bank is doing good work to fulfil various dimensions related to export sector. Financial institutions play a major role in export related finance in international trade. EXIM Bank provide various types of financial facilities on behalf of the financial institutions to survive in the international competitions and for the growth of the word market share. This study focuses on the Export Import (EXIM) Bank of India's export financing and credit facilities and analyses their effects on the nation's export performance. The Bank works to increase the international competitiveness of Indian export enterprises by supporting, enabling, and promoting India's international trade and investment. The Bank is extremely important for exporting. To encourage exports, it offers Trade Finance, which comprises Export Credit Insurance, various financial instruments, and guarantees. This study concentrates on financial aid because it is crucial for exporters in various countries to increase their market share globally. The study comes to the conclusion that export financing facilities are quite important.

**Keywords:** EXIM Bank, Export Financing, Financial Facilities



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## INTRODUCTION

The Export Import Bank of India, wholly owned by the Indian government, is the country's export finance institution. The Bank works to increase the international competitiveness of Indian businesses by supporting, enabling, and promoting India's two - way international trade and investment. Before the EXIM Bank was established, organizations like the Reserve Bank of India, IDBI, and ECGC were involved in financing the export industry.

The exporters' payment terms are included in the selling strategies. However, the flexibility of the payment terms depends on the amount, cost, and duration of financing options that are

made available to exporters at each stage of the shipment process. If an exporter lacks the necessary financing for production, it will take time to produce large quantities of commodities for export.

Depending on the nature of the export process, the need for export finance may be for short, medium, or long - term financing. Working capital and other forms of short - term financing are used to fund ongoing, recurring demands. It relates to expenses like paying rent, paying workers, buying raw materials, and advertising, among other things.

The seller can offer credit during the export process, but because working capital is limited, the exporter's business would be negatively impacted by the credit's lengthy term. In the absence of export financing, the exporter is unsure whether to accept the export order or not.

In another scenario, the exporter discovers a sizable untapped market in a nation and is able to secure the order but holds off because of the potential for commercial and political risk. In addition to serving as the leading financial institution, the bank's main goal is to deal with financial aid to importers and exporters. Some of the services provided by the bank include financing for foreign investments, film financing, export credit, financing for businesses with an export focus, and SME finance.

The EXIM Bank of India has played a crucial role in fostering international business and investment. Here, EXIM Bank also provide large range of products and services at all stages of the overall business cycle as a finance source, promoter, coordinator, and consultant for India's foreign trade mechanism, focusing more on the less fortunate in this sector, such as artisans, craftspeople, and rural entrepreneurs, small and medium organizations etc.

## **LITERATURE REVIEW**

By encouraging exports, export financing contributes significantly to economic growth (Evans and Oye, 2001; 2006, Klapper; Wright (2009); 1988, Baumann and Braga; 1991, Seringhaus and Botschen; 1991 by Mahone; Kawas, 1997; Picha and others, 2014; 2004 Leonidou; Lamberte and other, 1989).

In "Role of EXIM Bank for Development of International Business - A Study," **Mudugal (2020)** analyzed the EXIM Bank of India's export performance. In order to achieve economic development, provide employment opportunities, make use of all of the resources at their disposal, and obtain financing for exports, developing nations like India place a greater emphasis on increasing the value and volume of export turnover.

**Shekhar (2016)** discussed the various types, numbers, and values of export contracts and observed that almost every aspect of export contracts pertaining to the assistance provided to various nations is increasing.

In their work titled "EXIM Bank of India's Export Financing Strategy: An Analysis," **Ahmed and Ansari (2016)** examined the export financing strategy. An Analysis that demonstrates the significance of the export credit in enhancing export performance. According to the cited studies, the Export Import Bank of India plays a significant role in enhancing India's ability to enter the international market and capture market share by increasing its competitiveness.

According to **Ghose's (2015)** "An analysis of the growth of EXIM Bank as India's premier export financing institution," export financing and other factors contributing to export growth taking into account the EXIM Bank of India's role, functions, and goals.

According to **Peek's (2013)** analysis, international trade is riskier than domestic business. Financial institutions' guarantees play a significant role in ensuring that the exporter receives payment and that the goods are delivered to the importer.

In his study titled "Role and Importance of Credit Agencies," **Krauss (2011)** examined the significance of Export Credit Agencies (ECAs) in teaching exporters how to compete for foreign credit and providing additional financing to foreign buyers.

According to **Shaheen, Awan, Waqas, and Aslam (2011)**, good financial development encourages international trade.

According to **Susanto, Rosson, and Costa's (2011)** research, manufacturing sector bilateral trade flows benefit from financial development, particularly in developing nations.

According to **Amiti and Weinstein (2011)**, exporting businesses require external financing not only for their sunk costs but also for financing their working capital, in contrast to domestically supplied businesses, whose goods take longer to reach buyers.

According to **Aworemi (2011)**, if export finance is not utilized, export profit would be negative.

According to **Damijan and Costevc's (2011)** investigation, firms with strong internal accruals and strong financial standing can expand their product exports and rapidly enter new markets with the assistance of external finance.

According to **Shamsuddoha, Ali, and Ndubsi (2009)**'s analysis, finance and guarantee - related export assistance has an indirect effect on exports - that is, exporters commit more financial and human resources to exports when they receive the assistance.

According to **Auboin (2007)**, credit, insurance, or a guarantee are involved in more than 90% of commercial transactions. He adds that trade finance is the trade industry's lifeline.

According to **Klapper (2006)**, exporting businesses face difficulties due to foreign buyers' aversion to opening letters of credit. After thoroughly evaluating the product's quality, some buyers would prefer to pay.

According to **Assiedu-Appiah (2005)**, an exporter has a better chance of winning an order if they are able to tailor their payment terms to the requirements of the customer. He adds that the cost of financing has a significant impact on the price.

According to **Ronci (2004)**, trade finance has a short-term positive effect on both import and export.

According to **Beck (2003)**, industries that rely more on outside financing have higher export shares and trade balances in countries with a well-developed financial sector.

According to **Finger and Schulknecht (1999)**, financial institutions provide essential services for international trade, and the absence of these services would substantially increase trade transaction costs. They see finance as a "lubricant" for global commerce.

Financing for exports becomes more important when:

- The exports are high - tech, high - value products,
- Project exports where payment is spread out over a long period of time,
- The exports are to very poor, credit-risk countries, and
- There is a lot of competition among countries to export, which results in very competitive prices and financing at very low interest rates.

As a result, the research aims to determine whether or not EXIM Bank's export financing activities in India have an effect on export performance.

## **OBJECTIVES OF THE STUDY**

Followings are the objectives of the study:

- To investigate the EXIM Bank's various financing options available to exporters.
- To observe the EXIM Bank's credit facilities for exporters.

## **RESEARCH METHODOLOGY**

This study is conceptual and descriptive and based solely on secondary data gathered from the Export Import Bank of India's annual reports and financial statements, books, research publications, journals of international renown, and a variety of official bank websites.

### **VARIOUS EXIM BANK FINANCIAL ASSISTANCE PROGRAMS**

In Direct financial assistance mode, EXIM Bank gives overseas investment finance, pre-shipment finance, term finance for export production, line of credit, refinance to commercial banks and finance for export marketing.

It also provides non - funded facility like as guarantees. In this mode, EXIM Bank focus on post shipment finance, project export, manufactured goods, export of computer software and technology services.

EXIM Bank provides financial assistance to Indian Companies as:

#### **1. Non - Funding Areas of Services:**

- Performance Guarantee
- Guarantee for release of Retention Money
- Guarantee for raising Borrowings Overseas
- Bid Bond
- Advance Payment Guarantee

#### **2. Other Guarantees Funding Areas of Services:**

- Pre - shipment Rupee Credit
- Post - shipment Rupee Credit
- Lines of Credit
- Loan under FREPEC programme
- Refinance of Export Loans
- Foreign Currency Loan
- Overseas Buyers' Credit

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

Categorization of Export Credit in the following ways:

- Lending programmes for Indian Companies.
- Lending programmes for Commercial Banks in India.
- Lending programmes for Foreign Governments, Companies and Financial Institutions.

## FINANCIAL POLICIES OFFERED BY EXIM BANK

### 1. Loans To Indian Companies:

- **Deferred payment exports:** Deferred credit is offer to overseas buyers on eligible export. It also covers Indian consultancy, technology, and other services.
- **Pre - shipment credit:** It is available for complete executing export contracts. It also related to various expenses for construction/turnkey project exporters.
- **Term loans for export production:** Related to 100% export - oriented units, units in trade zones and computer software exporters, collaboration with International Finance Corporation, Washington.
- **Overseas investment finance:** It provide to establishing joint ventures in overseas areas.
- **Finance for export marketing:** This mode helps exporters to implement their export marketing development plans.
- **Refinance of export credit:** By this way EXIM Bank gives 100% refinance of deferred payment loans extended for export of eligible Indian goods.
- **Refinance of foreign currency pre - shipment credit:** This facility is also available from EXIM Bank.
- **Guaranteeing of obligations:** It helps to Indian companies for export contracts and for execution of overseas construction and turnkey projects.

### 2. Loans To Indian Businesses:

- **Deferred payment exports:** Indian exporters thank term financing, Indian consulting, technology, and other services which may also be covered by deferred credit. This program has direct participation from commercial banks.
- **Credit prior to shipment:** EXIM Bank can provide financing for export contracts that require complete execution and a cycle time of more than six months. Construction/turnkey project exporters can also use the facility to provide rupee mobilization costs.
- **Export production term loans:** EXIM Bank gives term loans and guarantees on deferred payments to 100% export - oriented businesses, trade zone businesses, and software exporters.
- **Provisions for deemed exports:** EXIM Bank will consider both funded and unfunded facilities for deemed exports.

- **Financing for foreign investments:** Finance is provided to Indian businesses that form overseas joint ventures in exchange for equity contributions.
- **Funding for marketing exports:** As part of a World Bank loan, this program helps exporters carry out their plans for the development of export markets.
- **Export credit financing:** EXIM Bank offers 100% refinancing of deferred payment loans extended for the export of eligible Indian goods to authorized foreign exchange dealers.
- **Pre - shipment credit for foreign currency financing:** EXIM Bank also offers the option of refinancing pre - shipment credit in foreign currency.
- **Obligation guarantees:** Together with commercial banks in India, EXIM Bank issues guarantees that Indian businesses need to fulfil contracts for export and overseas construction and turnkey projects.

## FINANCIAL PRODUCTS OF EXIM BANK

### 1. Overseas Investment Finance Program

EXIM Bank offers these financing options for overseas investments:

- Indian businesses can borrow up to 80% of their equity investment in overseas JV/WOS through term loans.
- Term loans to Indian businesses for up to 80% of the loans they give to foreign JV/WOS.
- Term loans to overseas JVs or WOS for part - financing:
  - capital expenditures for the acquisition of assets,
  - working capital,
  - equity investments in another company,
  - the acquisition of brands, patents, rights, or other intellectual property,
  - the acquisition of another company, and
  - any other activity that would otherwise be eligible for financing from EXIM Bank if the entity were an Indian one.

### 2. Exports of Projects:

Engineering, procurement, construction (civil, mechanical, electrical, or instrumental), including the supply of all desired and specified equipment and supplies, construction and building materials, consulting, technical know-how, technology transfer, design, engineering (basic or detailed), commissioning, and other related services required by

existing or new projects, plants, or processes that involve international competitive bidding, are all part of projects.

Access to financing during the manufacturing stage is provided by Funding Facilities under Project Exports Pre - Shipment Credit in Indian Rupees and Foreign Currency, making it possible for exporters to acquire raw materials and other inputs. Foreign Currency Pre - shipment Credit is another option available to exporters for importing raw materials and other inputs necessary for export production. After the shipment has been made, the export bill is paid for with Post - Shipment Credit. At the post - shipment stage, this facility enables Indian exporters to provide term credit to importers (overseas) of eligible goods.

### **3. Turnkey construction projects:**

Foreign currency pre - shipment credit is another option for exporters to use when importing raw materials and other components for export production. The facilities include services related to Indian engineering, capital, and goods.

EXIM Bank takes one of the following securities: Collateral in Cash; Security from the company; Guarantees from Shareholders and/or Directors; landed assets; Charge customers for their fixed and/or movable assets; rights and benefits, agreements, insurance policies, and contract proceeds are all subjected to assignment or any other security that the bank approves. Export Project Cash Flow Deficit Finance (EPCDF) is offered to Indian exporters who are carrying out contracts for project export overseas. During the contract execution period, the facility (INR/FC) enables project exporters to address temporary cash flow deficits.

## **NON - FUNDING FACILITIES UNDER PROJECTS EXPORT**

- 1. Advance Payment Guarantee (APG):** Issued to project exporters to secure a project mobilization advance as a percentage (10-20%) of the contract value.
- 2. Performance Guarantee (PG):** IPG for up to 5-10% of contract value is issued valid until completion of maintenance period and/or grant of Final Acceptance Certificate (FAC) by the overseas employer/client.
- 3. Retention Money Guarantee (RMG):** To obtain the release of retained payments from the client prior to issuance of Project Acceptance Certificate (PAC)/ Final Acceptance Certificate (FAC).
- 4. Other Guarantees:** In lieu of customs duty or security deposit for expatriate labour, equipment etc.



**5. Research & Development Finance for Export Oriented Units:** EXIM Bank's financing covers both capital and revenue expenditure including:

- Civil works for housing, land and building and R&D works.
- Computer hardware/ software and tools used in eligible R&D.
- Acquisition of technology.
- Salaries of personnel related to R&D project phase along with training costs.
- Product documentation and allied costs during the R&D project phase.
- Costs of surveys, technology demonstration and materials.
- Any other costs to enhance R&D capability.

Eligibility: Up to 80% of the total project cost can be funded.

**6. Pre - shipment/Post - shipment Credit Programme:** The Bank provides working capital finance by way pre - shipment credit and post-shipment credit, issuance of Letters of Credit and Bank Guarantees for its clients. The credit limits depend upon:

- Indian exporters with a track record.
- The limit within the MPBF of Borrower's assessed bank finance.
- Margin of 15-20% under pre - shipment and 0-10% under post-shipment.
- Adequate security to be provided.

**7. Lending Programme for Export Oriented Units:** Loans/Guarantees are extended for the following purposes: Expansion, modernization, up gradation, diversification projects including acquisition of equipment, technology etc.; export marketing; export product development; setting up of Software Technology Parks.

**8. SME - ADB Line:** EXIM Bank along with Asian Development Bank (ADB) for providing foreign currency term loans to the MSME borrowers in Indian states i.e., Assam, Madhya Pradesh, Orissa, Uttar Pradesh, Chhattisgarh, Jharkhand, Rajasthan and Uttarakhand to increasing competitiveness and integrating them into the mainstream economy. EXIM Bank has set up a Technology and Innovation Enhancement and Infrastructure Development (TIEID) fund of USD 500 million exclusively for MSMEs, to augment their export competitiveness and internationalisation efforts, by partnering with banks / FIs.

**9. Lending Programme for Financing Creative industry:** The Creative Industries are related to individual creativity, skill and talent and which have a potential for wealth and job creation through Advertising, Designer Fashion, Film and Video, Software and

Computer Services, Interactive Leisure Software, Music, Performing Arts, Architecture, Art and Antiques Market, Crafts, Design, Publishing, Television and Radio etc.

The organizations:

- Should be a legal entity registered under respective State/Central Govt. Act.
- Should be working with communities at grassroots level for promoting income generating activities (IGAs).
- Should have record of creating and promoting sustainable livelihood model.
- Should be exporting, directly or indirectly Line of Credit (LOC) is a financing mechanism through which EXIM Bank extends support for export of projects, equipment, goods and services from India.

The Development Partnership Administration (DPA) Division was recently established by the Ministry of External Affairs (MEA) to handle India's international development assistance programs, including LOCs routed through EXIM Bank.

Exim Bank finances all items that are eligible for export under the "Foreign Trade Policy" of the Government of India under the LOCs. These LOCs typically have credit periods of up to seven years and interest rates that are linked to LIBOR.

### **OTHER EXPORT FINANCING PROGRAMMES**

EXIM Bank provides export - related services and a variety of analytical data. Fee - based services provided by the Bank assist externally oriented businesses in their pursuit of excellence and globalization and identify new business propositions.

Services include looking for partners in other countries, finding technology suppliers, negotiating alliances, and starting joint ventures in India and other countries. In addition, the Bank helps Indian project exporters and consultants participate in multilaterally funded projects. By assisting Indian consultants in securing assignments abroad, EXIM Bank encourages them to expand their international exposure.

Pre - feasibility studies, project and investment-related services, management information systems, and operations and maintenance support primarily for small and medium - sized enterprises (SMEs) in a variety of industries like agriculture, agro - industry, consumer goods, light engineering, telecom, and others are among the consulting assignments completed.

The Marketing Advisory Services (MAS) Group of EXIM Bank promotes Indian businesses' export capabilities and international competitiveness. The Group makes use of the Bank's strong institutional connections, extensive knowledge of international markets, and high

international standing. Handmade paper, handicrafts, vegetables and fresh fruits, clothing, home décor, marine products, spices, and agri - equipment are among the items that are sold in Singapore, Africa, Brazil, the Middle East, the United States, and other countries.

In addition, the MAS Group organizes workshops and other supporting events to make designing and packaging products for international markets easier. In addition, the EXIM Bank aided throughout the entire business cycle, from technology imports and export product development to export production, export marketing, pre - shipment and post - shipment credit, and foreign investment.

## **CONCLUSION**

The government owns EXIM Bank whole in order to boost exports from each country. The exporters get insurance, credit, loans, and guarantees from them. Their primary objective is to encourage exports by providing credit, loan, guarantees, and insurance for export transactions in markets where the private sector is unable to provide these services or is unwilling to take risks due to the risks of business or politics. These organizations sometimes offer credit on non - commercial terms because they have a clear mandate from their respective governments.

EXIM Bank will continue to be a catalyst for India's international trade and investment from the solid foundation it has built over the past four decades. A wide range of financing programs are run by the Bank to help Indian businesses become more competitive in their export markets. EXIM Bank also offers import finance programs in exceptional circumstances. Through its grassroots initiatives, the Bank has established an innovative facility to support the globalization of rural industries. As a result, the EXIM Bank's vision has changed from focusing on products like Export Credits and Export Capability Creation to more on customers by providing a wide range of services and products that help businesses at all stages of the business cycle.

Today, EXIM Bank has aided exports and export - oriented projects in India and abroad in an extraordinary and exemplary manner. In order to achieve greater economic stability and development, it has focused more on increasing the value and volume of export turnover. This enables the nation to generate better employment opportunities and maximize resource utilization, despite the high risk involved. The EXIM Bank is playing a significant role in improving and promoting export turnover to larger spectrum both nationally and internationally.

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