Module-A Unit-8

CAIIB PAPER-2

BANK Financial Management(BFM)

CAIIB AFM Module A Unit 8: Exim Bank - Role, Functions and Facilities

Exim Bank – Role, Functions And Facilities

The EXIM Bank of India was established in 1981, under the **Export Import Bank of India Act 1981**, an Act of Parliament, as a principal financial institution for providing financial assistance and services and country, especially on a long-term basis. It arranges lines of credit to other Governments, for promoting exports for coordinating the functions of institutions engaged in financing of export import trade in the of goods made in India.

The functions and operations of Exim Bank evolve around following philosophy:

- To make India's exports internationally competitive, by offering finance at competitive rates and conditions.
- To develop alternate financing solutions.
- To provide data, information and advice for new export opportunities to Indian exporters.
- To provide selective production, marketing and financing for Indian products to make them internationally competitive.
- To respond to export problems of Indian Exporters and pursue policy resolutions.

EXIM Bank Products

Buyer's Credit:

- **Buyer's Credit is a credit facility programme that motivates Indian exporters to explore new geographies** Through this programme, the overseas buyer can open a letter of credit" in favour of the Indian exporter and can import goods and services from India on deferred payment terms.

Corporate Banking:

EXIM Bank offers various financing products to Corporates as under:

- Research & Development Finance for Export Oriented Units
- Pre-Shipment/Post-Shipment Credit Programme
- Lending Programme for Export Oriented Units
- Import Finance Programme
- Production Equipment Finance Programme
- Financial assistance to Special Purpose Vehicles (SPVs) of a cluster of SMEs

- Lending Programme for Financing Creative Economy
- Finance for Grass Root Enterprises

Lines of Credit:

- **EXIM Bank have been extending Lines of Credit (LOC) to enable Indian exporters to enter new geographies or expand their business in existing export markets without any payment risk from overseas importers.** They lay special emphasis on extending LOC as an effective market entry tool as well as a means of market diversification for Indian exporters.

Overseas Investment Finance:

- EXIM Bank helps in enhancing export opportunities for India and driving the economic growth of the nation. They encourage and facilitate conditions for Indian companies to invest abroad for seeking resources, markets, efficiencies and strategic assets.

Project Exports:

- EXIM Bank has been one of the prime drivers in encouraging project exports from India; and has enabled Indian companies to secure contracts across various geographies over the past three decades and supplement the development objectives of host countries.

They extend funded and non-funded facilities to the following export of projects and services:

- Civil Engineering and Construction Projects
- Turnkey Projects
- Technical and Consultancy Service Contracts
- Supplies

Other Services and Programmes

- **Consultancy and technology services** wherein Indian consultants are assisted by way of long term financial assistance, manpower and expert recruitment, preparation of project reports, plans, transfer of technology, etc.
- **Overseas investment finance** wherein corporates interested in joint ventures abroad, are provided equity finance by Exim Bank. The equity participation can

be by way of export of plant and machinery, for which long-term export finance is considered by Exim Bank.

- **Import loans** for financing imports from third countries for projects to be executed in foreign countries.
- **International merchant banking services** include foreign currency financing and advisory services for raising low cost finance for projects abroad to be executed by Indian companies.
- **Export Marketing Fund (EMF)**: Exim Bank is the nodal agency, designated by the Government of India (GOI), to manage the Export Marketing Fund (EMF) to accelerate the export growth of target products with industrialized markets. EMF-1 was a component of World Bank loan to India of USD 250 million for Industrial Export (Engineering products) project, while EMF-2, amounting to USD 37 million is a component of a World Bank loan to India for export development. EXIM Bank has also launched Export Marketing Finance EMF-3 from its own resources.

The activities which are eligible for EMF support include:

- ✓ Desk research
- ✓ Overseas field market research
- ✓ Minor product adaptation
- ✓ Overseas travel
- ✓ Product inspection services
- ✓ Training

Establishing overseas operations:

- ✓ Travel to India by overseas buyers
- ✓ Front-end promotional expenditure
- ✓ Research and development
- ✓ Equipment for plant modernization/capacity enhancement
- ✓ Tooling, jigs and fixtures
- ✓ Testing quality control equipment

Product Liability Insurance (PLI): In developed countries product liability consciousness of the public is very high, resulting in a large number of litigation and high awards.

Export Vendor Development Lending Programme (EVDLP): Manufacturer, exporters and trading export houses source goods from vendors for export on a regular basis.

EXIM Bank line of credit programme for other countries:

- Under this route, EXIM Bank grants line of credit to governments of other countries, for supporting their development plans, which allows the Indian exporter to get instant credit from EXIM Bank, upon exporting the goods/services and submission of export documents through their regular bankers.
- The beneficiary government gets **a long tenor of say 3-5 years to** pay for the products and services, thus allowing them deferred payment credit.

Reserve Bank of India - Role and Exchange Control Regulations In India

Reserve Bank of India, being the central bank of the country, is empowered under the statute to control and regulate the foreign exchange reserves and policies related to international trade, inflow/outflow of foreign exchange, as also has supervisory powers over the persons authorized to deal in foreign exchange.

FEMA Regulations

As per Section 11(1) of FEMA 1999, Reserve Bank of India, is empowered to issue any direction with regard to making payment or doing or desist from doing any act relating to foreign exchange or foreign security, for the purpose of securing compliance with the provisions of the FEMA, and any rules, regulations, notifications or directions made thereunder.

Under Section 11(3) of FEMA 1999 RBI may, after giving reasonable opportunities of being heard, impose on the **authorized person a penalty which may extend to Rs. 10,000.00 (Rupees Ten thousand) for contravention of any direction given under**

FEMA or failure to file any return under this Act. In case of continuing contraventions, an additional penalty, which may extend up to Rs. 2,000.00 per day, for which such contravention continues, may be imposed.

The data is to be submitted to RBI in the form of returns/statements, some of which are:

- **R Return -** Bank-wide single return of fortnightly data on forex operations
- **BAL Statement -** statement showing balances in NOSTRO, VOSTRO accounts
- **STAT 5 -** data on transactions related to FCNRB deposits
- **STAT 8 -** data on transactions in NRE and NRO deposit accounts
- **NRDCSR -** consolidated data on non-resident deposits
- **International Banking Statistics** - quarterly data on all international assets and liabilities
- **Statement of Remittances sent under Liberalized Scheme for Residents** - Monthly. Under the RBI's Liberalized Remittance Scheme, Authorized Dealers can allow remittances by resident individuals up to USD 2,50,000 per Financial Year (April-March) for any permitted current or capital account transaction or a combination of both. The Scheme is not available to corporates, partnership firms, HUF, Trusts, etc.
- **Statement of Trade Credit** - Buyer's Credit and Supplier's Credit – Monthly
- **XOS –** half-yearly exports outstanding statements, showing all overdue exports bills remaining unrealized. With effect from March 01, 2014, details of all export outstanding bills can be obtained from the EDPMS. AD category - I banks were, however, required to report the old outstanding bills prior to March 01, 2014 in XOS on half yearly basis as at the end of June and December every year.
- **BEF -** statement showing details of imports where remittances have been effected but proof of imports (bill of entry) not submitted by the remitter. However, after introduction of IDPMS, submission of BEF statement has been discontinued and the data of pending Bills of Entries are available to RBI, through the IDPMS system.
- **FEMIS -** daily data on forex dealing room operations.

- **ECB-2 -** Reporting of actual transactions of External Commercial Borrowings (ECB) under Foreign Exchange Management Act, 1999 (for all categories and any amount of loan)

Foreign Exchange Management Act, (FEMA) 1999

FEMA, 1999 was enacted by the statute of the parliament, and was brought into force w.e.f. 1.6.2000. The Act is applicable to all transactions in foreign exchange, undertaken in India or by persons resident in India.

Earlier **Foreign Exchange Regulation Act 1973 (FERA, 1973) regulated the area of foreign exchange,** which had its origin from Defence of India Rules 1935, and later on FERA 1947. The foreign exchange regulations have come a long way since 1935, 1947 and 1973, and with the introduction of a liberalized regime under FEMA 1999, there has been a considerable relaxation in regulatory provisions related to foreign exchange transactions.

The objective of FEMA is to facilitate external trade and payments and to promote the orderly development and maintenance of foreign exchange markets in India, while the objective of FERA was to conserve the foreign exchange resources of the country and to ensure proper utilisation thereof in the interests of the economic development of the country.

Remittances which Require prior Approval of the Government (Schedule II)

Purpose of Remittance	*Ministry/Department of Govt. of India whose approval is required*
1. Cultural Tours	Ministry of Human Resource Development, (Department of Education and Culture)
2. Advertisement in foreign print media for the purposes other than promotion of tourism, foreign investments and internatioal bidding (exceeding USD 10,000) by a State Government and its Public Sector Undertakings	Ministry of Finance (Department of Economic Affairs)
3. Remittance of freight vessel chartered by a PSU	Ministry of Surface Transport (Chartering Wing)
4. Payment of import through ocean transport by a Govt. Department or a PSU on c.i.f. basis (i.e. other than f.o.b. and f.a.s. basis)	Ministry of Surface Transport (Chartering Wing)
5. Multi-modal transport operators making remittance to their agents abroad	Registration Certificate from the Director General of Shipping
6. Remittance of hiring charges of transponders by (a) TV Channels (b) Internet Service Providers	Ministry of Information and Broadscating Ministry of Communication and Information Technology
7. Remittance of container detention charges exceeding the rate prescribed by Director General of Shipping	Ministry of Surface Transport (Director General of Shipping)
8. Omitted	
9. Remittance of prize money/sponsorships of sports activity abroadby a person other than International/National/State levels sports bodies, if the amount involved exceeds USD 100,000	Ministry of Human Resource Development, (Department of Youth Affairs and Sports)
10. Omitted	
11. Remittance for membership of P&I Club	Ministry of Finance (Insurnace Division)

Foreign Travel

The main provisions with regard to foreign travel are:

- Drawal of exchange for travel to Nepal and Bhutan is prohibited.
- Payment in rupees for purchase of foreign exchange may be done in cash, if the rupee equivalent is not more than Rs. 50,000.
- In case the rupee equivalent exceeds Rs. 50,000, the payment should be made by crossed cheques, a banker's cheques or a pay order or a demand draft or through NEFT/RTGS.
- Out of the total foreign exchange drawn, foreign currency notes and coins can be given by the authorized dealer, up to: (a) the entire amount in case of travel to

Islamic Republic of Iran, Russian Federation or other states of erstwhile Russia, (b) Up to USD 5,000 for travel to Libya or Iraq, and (c) not exceeding USD 3,000 in all other cases.

- A person resident in India can possess or retain foreign currency notes up to USD 2,000 or its equivalent, subject to specific rules on acquiring of such foreign exchange. However, a resident can possess foreign currency coins without any limit.

(vi) While selling foreign exchange for travel abroad, the passport of the traveler need not be endorsed, unless specifically requested for by him.

The traveler should surrender unspent foreign exchange within 180 days from the date of return.

The unspent foreign exchange can be deposited by the resident in the Resident Foreign Currency Account (RFC), with any Authorized Dealer.

Other Remittances

FEMA also allows residents to make remittances for following purposes also:

- **Gift remittance** per remitter/per donor up to USD 250,000 in one financial year, to relatives, friends, etc., abroad.
- **Donation** per remitter/per donor up to USD 250,000 in one financial year to charitable/religious cultural organisations.
- **Subscription to Magazines/Periodicals** can be allowed by the Authorized Dealers, except for the banned/proscribed magazines.
- **Consultancy Services** USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,00,000 per project for any other project.
- **International Debit/Credit Card ATM Card**: Residents can use their Credit/Debit or ATM cards while on visits abroad, which can be paid off through the designated AD branch, up to the entitlement of foreign exchange for visits abroad.

Prohibitions:

- Remittance out of lottery winnings.
- Remittance of income from racing/riding etc., or any other hobby.
- Remittance for purchase of lottery tickets, banned proscribed magazines, football pools, sweepstakes, etc.

- Payment of commission on exports made towards equity investment in Joint Ventures/Wholly owned Subsidiaries abroad of Indian companies.
- Remittance of dividend by any company to which the requirement of dividend balancing is applicable.
- Payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of tea and tobacco.
- Payment related to Call Back Services of telephones.
- Remittance of interest income on funds held in Non-Resident Special Rupee (Account) Scheme.

Indian Investments Abroad

From FERA 1973 - which had its main aim to conserve foreign exchange, India moved to FEMA 1999, which had its motto to facilitate external trade and payment and to maintain orderly growth of exchange markets. Section 6(3) of FEMA also authorised RBI to regulate the transfer or issue of any foreign security by a person resident in India and the classes of permissible Capital a/c transactions & limit up to which exchange is admissible, (in consultation with Central Government)

(ii)For Indian investments abroad, FEMA Notification No 1920 - RB - 2000 dated 3rd May 2000 - Transfer or Issue of any Foreign Security - As amended by various notifications, as also directions issued by way of AP (Dir Series) Circulars, are applicable.

(iii) Extant guidelines/regulations prohibit following investments abroad:

- Investments in Real Estate and Banking
- Investments by Indian Entity Caution Listed - under investigation by the Enforcement Directorate - Defaulter to the Banking system etc.
- Investments by Trusts

(iv)Indians can invest abroad by way of:

- **Joint Venture:** A foreign entity formed, registered or incorporated in accordance with the laws and regulations of the host country in which the Indian party makes a direct investment.
- **Wholly Owned Subsidiary:** A foreign entity formed, registered or incorporated in accordance with the laws and regulations of the host country, whose entire capital is held by the India party.

(v)Eligible investors

Corporates including registered partnership firms

- Individuals
- Mutual funds

Foreign Currency Account in India

Resident Indians can maintain following foreign currency accounts in India:

Exchange Earners Foreign Currency (EEFC) Accounts

- Resident persons, companies or firms can open and maintain EEFC accounts, for the purpose to transacting foreign exchange business. Every recipient of foreign exchange is allowed to retain 100% of the amount in a foreign currency account, with any AD.

Resident Foreign Currency (RFC) Accounts

- Returning Indians, who were non-residents earlier and are now returning to India for permanent settlement, are permitted to open a foreign currency account with any AD, to keep their foreign currency assets held outside India, or any other monetary benefits from the employer outside India.

Resident Foreign Currency (Domestic) Account - RFCD

- **A person resident in India is allowed to open and maintain a Resident Foreign Currency account with an AD,** out of the foreign exchange acquired by him in the form of currency notes, or travellers cheques, while on a visit to any country outside India, (not from business), or as an honorarium or gift for service rendered in India to any person who is not a resident of India, and is on a visit to India, or represent unspent foreign exchange acquired for travel abroad.

Diamond Dollar Account (DDA)

- **The facility of opening Diamond Dollar Accounts has been granted to diamond exporters, as the products they export is imported in raw form, from abroad**. India imports, rough diamonds and exports polished diamonds to various countries in the world. As such, since the diamond exports usually need to remit a large part of their realisation of export proceeds for payment of import bills, they can park their foreign currency funds in these Diamond Dollar accounts and remit funds to retire their import bills, without incurring any exchange risk.

Role of FEDAI and FEDAI Rules

About FEDAI

Foreign Exchange Dealers Association of India (FEDAI) a Self Regulatory Organization (SRO), was formed in August 1958 with the approval **of Reserve Bank of India**, to take over certain functions then undertaken by the Exchange Banks' Association (foreign banks) operating at Mumbai, Kolkata, Chennai, Delhi and Amritsar.

It was set up as an Association of banks dealing in foreign exchange in India (typically called Authorised Dealers - ADs) and incorporated **under Section 25 of The Companies Act, 1956.** Its major activities include framing of rules governing the conduct of inter-bank foreign exchange business among banks vis-à-vis public and liaison with RBI for reforms and development of forex market.

Presently some of the functions of FEDAI are as follows:

- Guidelines and Rules for Forex Business.
- Training of Bank Personnel in the areas of Foreign Exchange Business.
- Accreditation of Forex Brokers.
- Advising/Assisting member banks in settling issues/matters in their dealings.
- Represent member banks on Government/Reserve Bank of India/Other Bodies.
- Announcement of daily and periodical rates to member banks.

The FEDAI rules (9th edition) UPDATED UPTO 30112016, presently applicable to authorised dealers are as under:

General Guidelines/Instructions

- The directives issued by the Reserve Bank of India in respect of interest rates on Export & Import finance shall be adhered to by the Authorised Dealers.

- The member banks are totally free to determine their own charges for various types of forex transactions, keeping in view the advice of RBI that such charges are not to be out of line with the average cost of providing services.
- With a view to simplifying and liberalising import authorised dealers are permitted to open standby letters of credit on behalf of their importer constituents for importing goods into India, permissible under Foreign Trade Policy. RBI in terms of its AP (Dir Series) Circular No.84 dated 3rd March 2000 permitted authorised dealers to open standby letters of credit subject to adherence to the guidelines issued by FEDAI.
- Banks should prominently display their card rates for foreign currencies on their website and/or their B Category branches. Banks should also declare threshold amounts up to which they are committed to apply card rates.
- Information regarding various forex related programmes, exchange rates advised at various times, important circulars issued by FEDAI etc.
- FEDAI reference to Authorised Dealer is the reference to all Authorised Dealers (Category-1) banks and other Financial Institutions who are members of FEDAI, wherever applicable.

Interest for delayed delivery

In the event of late delivery of any currency (including Indian Rupee) in foreign exchange contract, interest for the number of days of delay (regardless of the causes for delay) shall be payable by the seller-bank**. The interest for the overdue period shall be payable at the rate of 2% over the benchmark rate of the currency concerned.** The benchmark rates for the currencies are listed below:

- INR-NSE - MIBOR overnight rate
- STG-Base rate of Barclays Bank
- USD - Prime rate of Citibank NA
- EUR - Marginal Lending Facility rate of European Central Bank
- JPY- Prime rate of Bank of Tokyo-Mitsubishi UFJ Ltd.
- CHF - 3 month rate of Swiss National Bank
- CAD-Prime rate of Bank of Nova Scotia

In case of transactions in currencies not mentioned above, the seller bank shall pay interest at 2% over notional overdraft rate payable by the buyer bank. The rate of interest applied would be the average rate based on rates on each day of delay.

Short Notes on Other Topics

External Commercial Borrowings

External Commercial Borrowings (ECBs) are commercial loans raised by eligible resident entities from recognised non-resident entities and should conform to parameters such as minimum maturity, and non-permitted end-uses, maximum all-in-cost ceiling, etc. The parameters apply in totality and not on a standalone basis.

The framework for raising loans through ECB, comprises the following three tracks:

- **Track I:** Medium term foreign currency denominated ECB with minimum average maturity of 35 years
- **Track II:** Long term foreign currency denominated ECB with minimum average maturity of 10 years.
- **Track III:** Indian Rupee (INR) denominated ECB with minimum average maturity of 375 years.

Forms of ECB: The ECB Framework enables permitted resident entities to borrow from recognized non-resident entities in the following forms:

- Loans including bank loans
- Securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares/debentures)
- Buyers' credit
- Suppliers' credit
- Foreign Currency Convertible Bonds (FCCBs)
- Financial Lease
- Foreign Currency Exchangeable Bonds (FCEBs)

American Depository Receipts (ADRs)

Introduced to the financial markets in 1927, an American depositary receipt (ADR) is a stock that trades in the United States but represents a specified number of shares in a foreign corporation. ADRs are bought and sold on American markets just like regular stocks, and are issued/sponsored in the U.S. by a bank or brokerage.

- **Unsponsored ADRs** : This is an arrangement which is not initiated by the company concerned, but is generally set up by one or more US brokers. Unsponsored shares trade on the over-the-counter (OTC) market. These shares are issued in accordance with market demand, and the foreign company has no formal agreement with a depositary bank. Unsponsored ADRs are often issued by more than one depositary bank. Each depositary services only the ADRs it has issued.
- **Sponsored ADRS**: In this case the issuing company actively promotes the company's ADRs in the USA, choosing a single depository bank, which assumes sole responsibility for administration and dividend payment. In this case, the administrative costs involved in issuing the ADRs are borne by the issuing company. The proceeds of the ADR issue are also received by the company.
- **Global Depository Receipts (GDRs)** : A global depositary receipt (GDR) is a bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares but are offered for sale globally through the various bank branches. A GDR is a financial instrument used by private markets to raise capital denominated in either U.S. dollars or euros.
- **Foreign Currency Convertible Bonds (FCCB)** : Foreign currency convertible bonds (FCCBs) are a special category of bonds. FCCBs are issued in currencies different from the issuing company's domestic currency. Corporates issue FCCBs to raise money in foreign currencies. These bonds retain all features of a convertible bond, making them very attractive to both the investors and the issuers.
- **Foreign Currency Exchangeable Bonds (FCEBs):** Until 2008, the only options available for an Indian corporate to raise overseas debt were either by way of external commercial borrowings ('ECBs') or by way of foreign currency convertible bonds (FCCBs'). There was, however, no mechanism whereby the promoters of Indian companies could unlock value in their group companies to raise funds abroad. On February 15, ’08, Finance Ministry notified the scheme for

the issue of Foreign Currency Exchangeable Bonds Scheme, 2008 (Scheme) allowing Indian companies to leverage value in their listed group companies by way of issue of Foreign Currency Exchangeable Bonds (FCEBs').