

AN ANALYSIS OF THE GROWTH OF EXIM BANK AS INDIA'S PREMIER EXPORT FINANCING INSTITUTION

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ABSTRACT

Finance is the life and blood export transactions due to the prevalence of novel non-price competitive techniques encountered by exporters in various nations to enlarge their share of world markets. The selling techniques are no longer confined to mere quality; price or delivery schedules of the products but are extended to payment terms offered by exporters. Liberal payment terms usually score over the competitors not only of capital equipment but also of consumer goods. The payment terms however depend upon the availability of finance to exporters in relation to its quantum, cost and the period at pre-shipment and post-shipment stage. This paper studies the role of EXIM BANK in promoting export finance and analysing its Financial Performance. The study also covers the overview of total net profit transferable to Central Government by the EXIM BANK OF INDIA. The time period chosen is from 2004 to 2014, which essentially covers the last decade. We have used various graphs and charts to establish the overall growth of EXIM BANK in terms of Approvals, Loan Portfolio, Guarantees Portfolio, Paid-up-Capital, Reserves, Borrowings and Profit After Tax. We concluded that the increasing trend of profits and the balance of profit which has been transferred to the Central Government is increasing, making EXIM BANK OF INDIA a successful Government institution. There is also a need for coordination between banks and financial institutions making the role of EIGC important in timely settlement of claims which will act as an impetus for a favourable export business.

Keywords: EIGC, Export Finance, EXIM Bank, Post Shipment Credit and Pre Shipment Credit.

Introduction:

Exports are instrumental in the development of an economy, particularly developing nations. One of the major contributory factors for promotion of export trade is the availability of “Special Finance” both at pre and post-shipment stages. An exporter has not only to procure the raw materials either indigenous or imported for processing the same in finished goods and boarding them of ship/air, but also has to often allow credit terms to an overseas buyer. Delivery period in international trade transactions is normally longer compared to the domestic counterpart and correspondingly. The lead time for getting payment from the overseas buyer is more. The exporter has thus to be extra cautious to ensure that the overseas buyer is reliable one and payment for the goods/services sold/rendered will be realised expeditiously.

Therefore, the issues involved in export finance primarily involve:

- (i) Availability of adequate and timely finance.
- (ii) Provision of concessional credit on order to make the export internationally competitive.
- (iii) Institutional support to protect the losses on account of default risks of the overseas buyers.
- (iv) Availability of special deferred credit for promotion of project exports including turnkey assignments.

While increase in exports is of vital importance, we have to facilitate those imports which are required to stimulate our economy. Coherence and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development. Thus, while incorporating the existing practice of enunciating an annual EXIM Policy, it is necessary to go much beyond and take an integrated approach to the developmental requirements of India's foreign trade. This is the context of the new Foreign Trade Policy. Exporters also face the different forms of risks like Commercial Risk, Transportation Risk, Exchange Risk and others.

In the above backdrop, this study was undertaken to look into the various aspects of export financing in India with particular reference to the role of EXIM BANK OF INDIA.

The Export-Import Bank of India (EXIM BANK of India) is India's national Export Finance Institution, fully owned by the Government of India. The Bank is engaged in financing, facilitating and promoting India's two-way international trade and investment, and seeks to enhance the international competitiveness of Indian enterprises. Recognizing the dynamics of international trade, EXIM BANK of India's vision has evolved beyond providing export credit to a conscious, systematic effort at creating international competitiveness capabilities by arranging competitive finance and services at all stages of the business cycle. Government of India launched the institution with a mandate, not just to enhance exports from India, but to integrate the country's foreign trade and investment with the overall economic growth. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Export finance and credit are the most important non-pricing techniques like quality, packaging and delivery to export more. Competition both for consumer and capital goods is getting intensified in world markets. There is now a buyers market all over where the buyer dictates intensified terms not only in regard to price but also quality, packaging, delivery schedule and above all on appropriate credit terms. Credit is also partly asked for by overseas buyer on account of difficult money market position and also foreign exchange problems faced in many countries, particularly the developing world. The buyer's (importer's) choice of supplier (exporter) is influenced by the credit offered by the latter. Export credit has become an important tool of export promotion in countries like India. Even the developed countries like United States, Germany and Japan are developing comprehensive systems and institutions for providing finance to their exporters.

Export-Import Bank of India (EXIM BANK) was set up by an Act of the Parliament “THE EXPORT-IMPORT BANK OF INDIA ACT, 1981” for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for co-ordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade and for matters connected therewith or incidental thereto. It has a high-powered Board of Directors comprising: A Deputy Governor of Reserve Bank of India, Chairmen of IDBI, ECGC, Representatives of the Ministries of Finance, Commerce, Industry, External Affairs and Planning, Chairmen of scheduled banks and professionals from

trade and industry. Over the years, EXIM BANK has developed 35 lending programmes covering all stages of the export cycle namely Import of Technology, Export Product Development, Export Production, Export Marketing, Pre-shipment, Post-shipment, Investment Abroad. Some of the Products and services are Paper Finance and Export Credits, Finance for Export Oriented Units, Overseas Investment Finance, Lines of Credit, SME and Agri Finance, Film Finance, Rural Initiatives and Export Advisory and support Services. EXIM BANK extends funded and non-funded facilities for overseas turnkey papers, civil construction contracts, technical and consultancy service contracts as well as supplies. EXIM BANK also extends non-funded facility to Indian Exporters in the form of guarantee. Diversified lending programme of the EXIM BANK now covers various stages of Exports i.e., from the development of Export market to expansion of production capacity for exports, production for exports and post-shipment financing. The EXIM BANK also focus on export of manufactured goods, paper exports, exports of technology, services and export of Computer Software. EXIM BANK, under powers delegated vide the PEM, provides post-award clearance for paper export contracts valued up to USD 100 million. Paper export contracts valued above USD 100 million need to be provided post-award clearance by the inter-institutional Working Group. The Working Group is a single-window clearance mechanism, comprising EXIM BANK as the conveners and nodal agency, RBI – Foreign Exchange Department and Export Credit Guarantee Corporation of India Ltd. [ECGC].

In the case of very large value papers, officials of Ministry of Finance, Ministry of Commerce and Industry and Ministry of External Affairs, Government of India, are invited to participate in the Working Group Meetings. In order to obtain immediate clarifications for speedy clearance of proposals by the Working Group, the exporters concerned and their bankers are also associated with the meetings. With the same objective, participation of the main sub-suppliers, sub-contractors or other associates and their bankers in such meetings is also encouraged, particularly in respect of proposals for high value contracts. EXIM BANK also plays the role of a financier and provides funded and non-funded support for paper export contracts of Indian Entities. In addition to paper exports, EXIM BANK also extends fund-based and non-fund-based facilities to deemed export contracts as defined in Foreign Trade Policy of GOI, e.g.,

- secured under funding from Multilateral Funding Agencies like the World Bank, Asian Development Bank, etc.;
- contracts secured under International Competitive Bidding;
- Contracts under which payments are received in foreign currency.

The Bank supported 75 paper export contracts aggregating to `341.3 billion secured by 40 Indian companies in 35 countries, reflecting the capabilities of Indian corporate to secure and execute a diverse range of papers. As on March 31, 2014, 319 paper export contracts valued at ` 1403.2 billion supported by the Bank were under execution, in 74 countries across Asia, Africa and USA by 99 Indian companies. During the year, the Bank also extended Buyer's Credit facility to 27 overseas companies to facilitate exports from India. Buyer's Credit under the Government of India's National Export Insurance Account (BC-NEIA), which was recently launched in conjunction with the Export Credit Guarantee Corporation of India Ltd. to promote paper exports from India, has made steady progress. The Bank has so far sanctioned an aggregate amount of US\$ 1.4 billion for 11 papers valued at US\$ 2.67 billion under BC-NEIA. The Bank has also given in-principle commitments for supporting several papers and the current active pipeline includes papers aggregating US\$ 6.5 billion under BC-NEIA. During the year, 24 new LOCs aggregating US\$ 1.77 billion were extended by the Bank to support export of papers, goods and services from India. As on March 31, 2014, the Bank had in place 189 LOCs covering 75 countries in Africa, Asia, CIS, Europe and Latin America with credit commitments aggregating US\$ 10.3 billion. With Indian companies having established themselves as global investors, the Bank provides impetus to such outward-oriented corporates. The Bank assisted 55 corporates for part financing their overseas investments in 22 countries. The Bank plans to set up a Paper Development Company in Africa, which will essentially look to bring infrastructure papers in Africa to a bankable stage and facilitate exports from India to Africa. This is a new initiative EXIM BANK has taken. During the year, the Bank formed a new joint venture, viz. Bharat Handloom Marketing Company Ltd. (BHMCL) in association with the National Handloom Development Corporation Ltd. and the Association of Corporations and Apex

Societies of Handlooms. BHMCL has been incorporated as a public limited company under the Companies Act, 1956 to carry out the business of promotion and marketing of handloom and handicraft products both at the domestic and global levels. During the year, the Bank raised foreign currency resources aggregating US\$ 3.2 billion equivalent through a variety of instruments, different investor bases and across various geographies. In March 2014, the Bank issued 5.5-year US\$ 500 million Eurodollar bonds, which are included in the Emerging Market Bond Index. In fact, EXIM BANK is the first Indian entity to be included in the Emerging Market Bond Index. The Bank raised US\$ 171 million equivalent in April 2013 by way of issue of Uridashi Bonds (a bond denominated in a foreign currency and sold directly to Japanese household investors) in three different currencies viz., Turkish Lira, Japanese Yen and Mexican Peso thereby achieving diversification of investor base. In July 2013, the Bank followed up with another issue of Uridashi Bonds of US\$ 148 million equivalent. The Bank has now tapped the Uridashi Bond market on three occasions and continues to be the only Indian entity in this market. The Bank continued its endeavors to support globalisation of rural industries through the Grassroots Business Initiatives.

Vijaya Katti (2005), points out that for India to become a major player in world trade, an all-encompassing and comprehensive view needs to be taken for the overall development of the country's foreign trade. The EXIM policy was renamed as the new Foreign Trade Policy. The Foreign Trade Policy was built around two major objectives. These are to double our percentage share of global merchandise trade within the next five years, and to act as an effective instrument of economic growth by giving a thrust to employment generation. She was of the opinion that the new trade policy was of immense use to India's foreign trade. *Bhagwati and Krueger* (2007), in their comparative analysis of the impact of foreign trade regimes and economic development in a number of countries, defined a set of analytical phases with reference to the EXIM policy of a country. These phases in the foreign trade regime were designed essentially as a descriptive device to capture meaningfully the evolution of foreign trade regime in terms of its restricting content and the dimensions and pattern of its use of control and price instruments.

Andriamananjara and Nash (1997) studied a country's degree of integration in the world economy and how this changes over time. It is difficult to do is that there are a wide array of policy instruments used to affect trade. In the simplest possible case, a uniform tax or subsidy on imports or exports with no other restrictions, measurement would be relatively simple. A reasonable measure of integration or ("openness") would be the rate of the tax or subsidy. In the more common case of a non-uniform trade tax structure, the task is more formidable since even with the same average rate, the effect on trade will differ, depending on which goods are taxed at high rates and which at low.

Burange and Chaddha (2008), attempted to evaluate India's RCA in exports and imports in different type of goods categorized on the basis of their production. These include, Ricardo', 'Heckscher-Ohlin' (HO), 'Product-cycle' (PC) goods and 'Others'. Results suggest that India enjoys a comparative advantage in the exports of Ricardo and HO goods. PC goods in contrast have not displayed any improvement in the RCA universe. On the import front, it is essentially Ricardo goods where India enjoys comparative advantage. All production of goods requiring standard technology is shifting to developing economies like India as reflected in the absence of RCA in imports of HO goods.

Objectives and Methodology:

- To understand the EXPORT FINANCING mechanism.
- To understand the role of EXIM BANK in promoting export finance.
- To analyse the Financial Performance of EXIM BANK OF INDIA and to find the total net profit transferable to Central Government.

The methodology used is collection of secondary data financial data of EXIM BANK OF INDIA for last 10 years i.e., from 2004-05 to 2013-14 from various Reports related to Export Finance and the annual reports of EXIM BANK OF INDIA. This data has then been empirically studied through graphs and charts to understand the trend in the growth and also the reasons behind such trends.

Results:

We have analysed the Financial Performance of EXIM BANK OF INDIA and the total net profit transferable to the Central Government.

Table 1: General Performance In The Last 10 Years

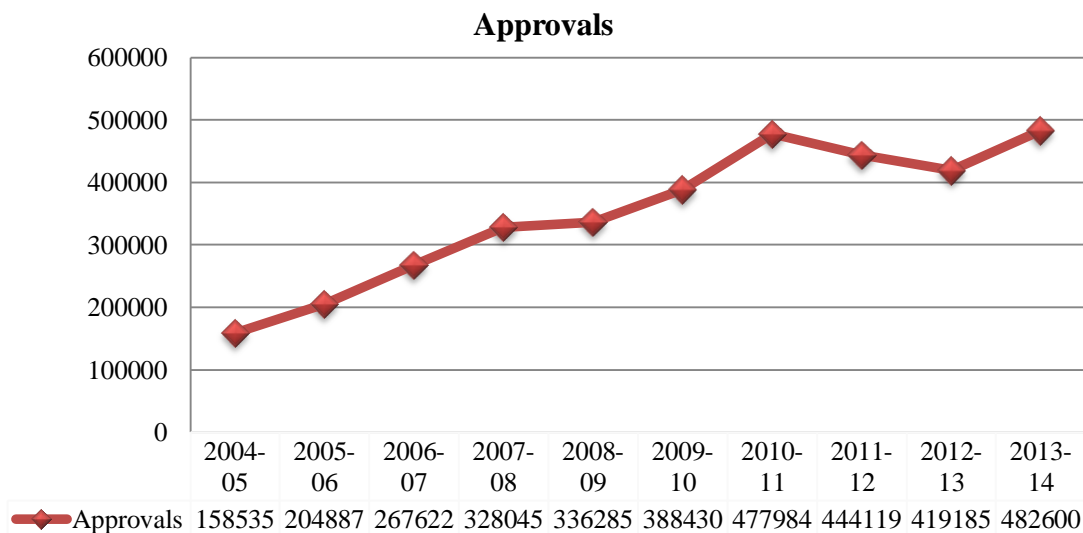
(Rs. millions)										
PARAMETER	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Approvals	158535	204887	267622	328045	336285	388430	477984	444119	419185	482600
Loan Portfolio	129104	175931	228862	287767	341564	390357	456558	538898	643530	745983
Guarantees Portfolio	23727	34023	35360	34556	35401	22736	30557	32407	47440	53668
Paid-up-Capital	8500	9500	10000	11000	14000	17000	20000	23000	30594	37594
Reserves	16625	17703	18741	21064	24681	28316	32302	37003	41796	45504
Borrowings	120118	160090	216616	317163	372023	405088	471918	546546	644848	714821
Profit After Tax	2579	2707	2994	3330	4774	5135	5836	6751	7423	7098

Before analysing the trend of the financial statement of EXIM BANK, we should firstly try to know about the different PARAMETERS used –

Approvals:

Loan approval basically means the formal authorization of getting a loan usually by a bank. This is one of the most important tasks done by a bank. This process supplies the life blood to the bank i.e., the earning from interest. If the amount of loan approval is having an increasing trend then it's really beneficial to the organisation. This proves that the organisation is working well and will have a bright future. If we take a look in the loan approvals of EXIM BANK for the years 2004-05 to 2013-14 we can see that there is always an increasing trend .A fall is though observed in the year 2011-12 & 2012-13 which was due to global crisis and the fall in the GDP. It should be noted that the amount of approval is again following its' normal trend of increasing. It could be better understood with the help of the following graph;

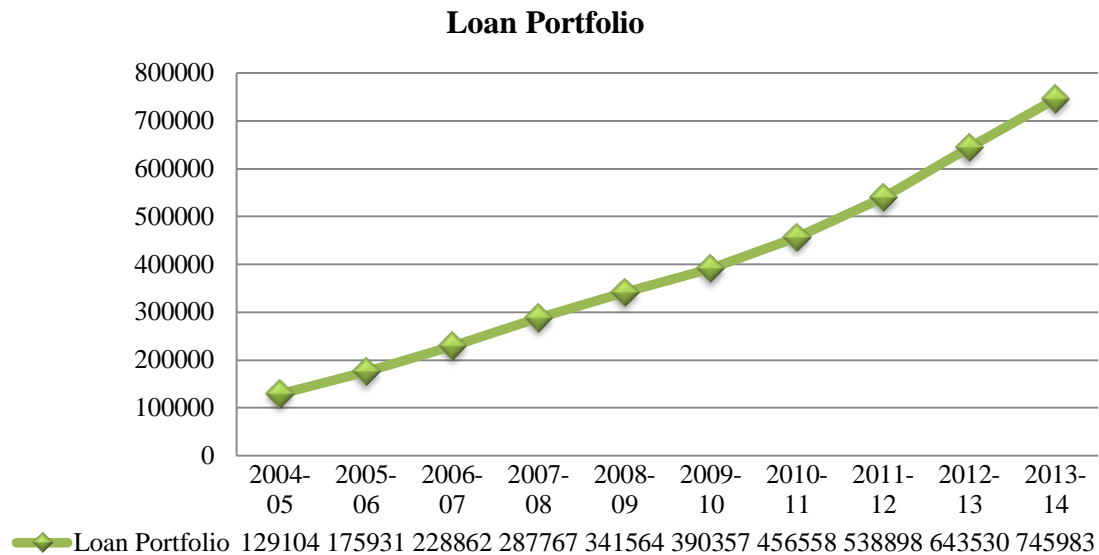
Graph 1: Approvals Analysis:



Loan Portfolio:

Loan Portfolio basically shows the amount of loan which is granted. This is treated as an asset in the financial statement of the institution. In case of EXIM BANK the loan portfolio is having an increasing trend as shown in the graph below –

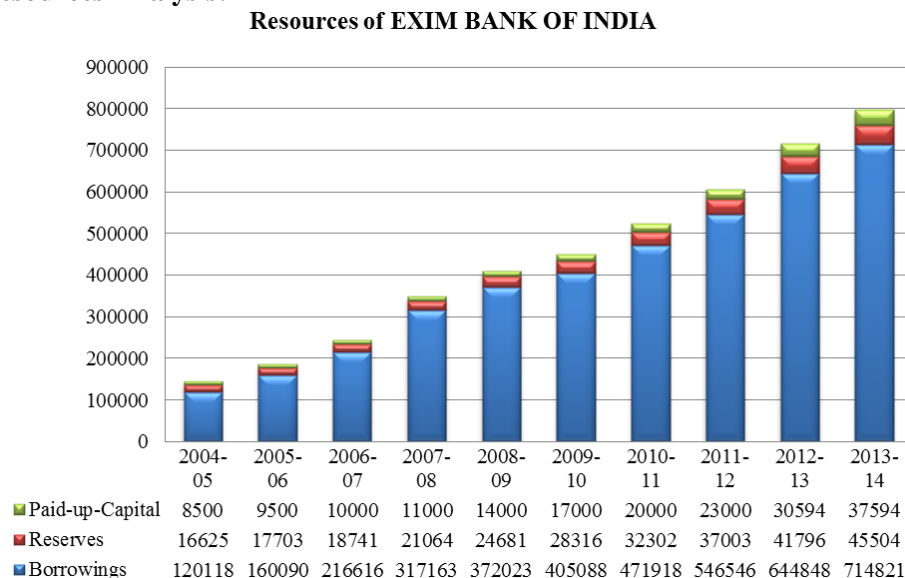
Graph 2: Loan Portfolio Analysis:



In the above graph we see that the amount of loan portfolio is increasing year after year i.e., the amount of assets is increasing. As the assets of the organisation is increasing its profitability also increases giving an upward thrust to the financial position of EXIM BANK.

Resources of Exim Bank:

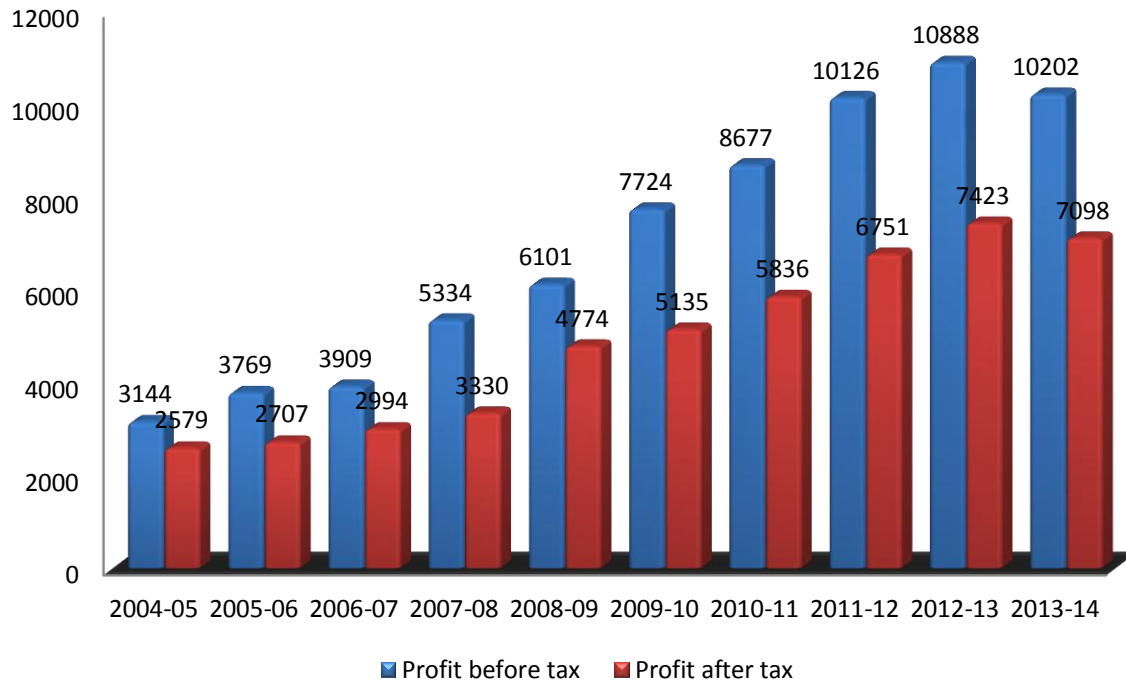
Graph 3: Resources Analysis:



In this graph we can see that BORROWINGS is the main source of RESOURCE for EXIM BANK OF INDIA, followed by RESERVES and PAID-UP-CAPITAL. One thing is to be noted that even after having such high amount of borrowing and paying the interest, the bank is yielding high profits. This

can be best understood with the help of the next figure showing the PROFIT BEFORE TAX (PBT) AND PROFIT AFTER TAX (PAT) –

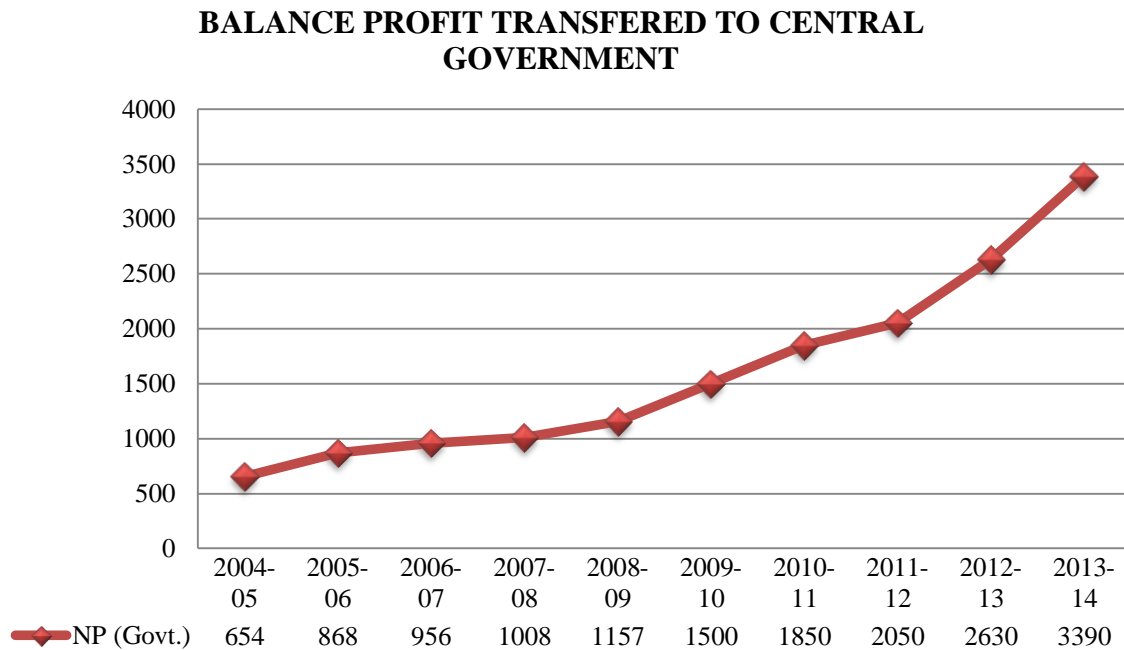
Graph 4: Profit before Tax (PBT) and Profit after Tax (PAT) Analysis:



In the above figure we can see that the EXIM BANK OF INDIA is earning high amount of profits even after paying the heavy amount of interest on the borrowings. There is an increasing trend in the profit earning capacity of the organisation. There is a very small fall in the amount of profit in the year 2013-14, which is due to the very huge increase in “THE PROVISION FOR LOAN, LOSSES/CONTINGENCIES, DEPRECIATION ON INVESTMENTS” which is about Rs.774,58,91,595 more compared to the last year 2012-13.

Before commenting upon the financial performance of the bank we must look into INCOME/EXPENDITURE PROCESS of the bank. The registered Profit Before Tax (PBT) of General Fund is taken into account, then tax is paid and we arrive at Profit After Tax (PAT). Out of this profit, an amount is transferred to Reserve Fund. In addition, the Bank has to transfer a fixed percentage on PAT to Sinking Fund and an amount to the Special Reserve as *u/s 36(1)(viii) of the Income Tax Act, 1961*. The balance amount will be then transferred to the CENTRAL GOVERNMENT as provided in the *EXPORT-IMPORT BANK OF INDIA ACT, 1981*.

Graph 5: Balance Transferred To Central Government Analysis



Discussion and Interpretation:

The following are the finding of the project:

- EXIM BANK OF INDIA is a wholly Government owned unit. Thus huge amount of grants are given by the Government to the bank, in return bank gives huge amount of taxes along with the balance of profit. If consider this grant to be the investment then the PBT is the amount of return.
- The EXIM BANK OF INDIA had expended very high in the year 2013-14 for **THE PROVISION FOR LOAN, LOSSES/CONTINGENCIES, DEPRECIATION ON INVESTMENTS** which is about **Rs.774,58,91,595** more compared to the last year 2012-13. Due to this the general trend of increasing PAT & PBT has been hindered. This may lay a negative impact in the eye of the general public. Proper cost control method should be adopted.
- A very unique way of transfer of profit to CENTRAL GOVERNMENT is seen. The registered **Profit Before Tax (PBT)** of General Fund is taken into account, then tax is paid and we arrive at **Profit After Tax (PAT)**. Out of this profit, an amount is transferred to **Reserve Fund**. In addition, the Bank has to transfer a fixed percentage on **PAT** to **Sinking Fund** and an amount to the **Special Reserve** as u/s 36(1)(viii) of the 'Income Tax Act, 1961'. The balance amount will be then transferred to the **CENTRAL GOVERNMENT** as provided in the '**EXPORT-IMPORT BANK OF INDIA ACT, 1981**'.
- One thing is to be taken into account that the **BORROWINGS** are the main source of **RESOURCE** for EXIM BANK OF INDIA which is increasing every year, even after paying the high amount of interest and part of the principal amount the institution is earning very high amount of profits. This clearly shows the bright future of the EXIM BANK OF INDIA and its relevance in Export Financing.

In this paper we have taken into account Export Financing and other factors contributing to the growth of export. The paper highlights the establishment, role, functions and objectives of the EXIM BANK OF INDIA. Developing countries like India concentrates more on increasing the value and volume of the export turnover to attain economic developments to provide employment opportunities to utilize all the available resources and to finance for exports. But the export sector involves high amount of risk. The Indian exporters have to be protected from several types of risks involved in export business. Here EXIM BANK plays vital role. By improving the performance of export, bank is in better position to extend its services to all types of exporters effectively. EXIM BANKING of course, extends

beyond international banking which in its narrow sense relates to delivery of trade products and services to business and trade Customers. Thus, The EXIM BANK of India is regarded as the drivers behind global trade and corporate globalization. The paper suggests for increasing the flow of bank credit to export sector, restructuring the interest rates. It also calls for a change in the attitudes of banks conservative and risk averse. The need for coordination between banks and financial institutions, role of EIGC 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 borrowings, international factoring and banker's acceptance for accelerating promotion of exports. This comparison of the financial data shows the increasing trend of profits and the balance of profit which is been transferred to the Central Government is increasing, making EXIM BANK OF INDIA a successful Government institution.

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