EXPORT LINES OF CREDIT

A Safe and convenient Export Financing Option
Introduction

Three decades ago, in 1982, Government of India launched a new institution in the form of Export-Import Bank of India (Exim Bank), with a mandate to enhance exports and integrate India’s international trade and investment with its economic growth.

While the mandate was demanding, what really set the Bank apart was the strategy adopted to fulfil it, which essentially involved introduction of innovative products and services and proactive adaptation to new challenges.

Commencing operations as a purveyor of export credit, Exim Bank today plays an important role in partnering Indian industries in their globalisation efforts through a comprehensive range of financing and advisory support programmes encompassing all stages of the export business cycle.

Exim Bank has played a pioneering role in promoting project exports from India and has been actively encouraging Indian firms to participate in overseas project opportunities. With the Bank’s support, many Indian companies operate as Project Management Consultants (PMC) or Engineering Procurement Construction (EPC) contractors or consortium members in export markets.

The achievements of the past three decades provide a strong foundation to Exim Bank from where it will continue to catalyse 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 market.

This brochure is for dissemination of information on one of the principal lending programmes of Exim Bank viz. Lines of Credit (LOCs), to various Indian exporters, as also prospective LOC recipients viz. Foreign Governments or their nominated agencies such as central banks, state owned commercial banks and para-statal organizations; national or regional development banks; overseas financial institutions; commercial banks abroad; and other suitable overseas entities.

This brochure contains:

(i) Background
(ii) Section I : Broad Guidelines and Procedures of Government of India supported Lines of Credit; and
(iii) Section II : Broad Guidelines and Procedures of Exim Bank’s own commercial Lines of Credit
Background

A Line of Credit is a financing mechanism through which Exim Bank extends support for export of projects, equipment, goods and services from India. Exim Bank extends LOCs on its own and also with the support of Government of India. Exim Bank extends Lines of Credit to:

(a) Foreign Governments or their nominated agencies such as central banks, state owned commercial banks and para-statal organizations;
(b) National or regional development banks;
(c) Overseas financial institutions;
(d) Commercial banks abroad;
(e) Other suitable overseas entities.

The above mentioned recipients of LOCs act as intermediaries and onlend to overseas buyers for import of Indian equipment, goods and services. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to Small and Medium Enterprises (SMEs), to enter new export markets or expand business in existing export markets without any payment risk from the overseas importers.
Section I:

Broad Guidelines and Procedures for Government of India Supported Lines of Credit

The Government of India (GOI), in 2003-04, formulated the India Development Initiative (IDI), now known as Indian Development and Economic Assistance Scheme (IDEAS) – with the objective of sharing India’s development experience through
(a) capacity building and skills transfer,
(b) trade, and
(c) infrastructure development,
by extending concessional Lines of Credit (LOCs) routed through Exim Bank, to developing partner countries, towards creating socio-economic benefits in the partner country. Recently, the Ministry of External Affairs (MEA) has set up the Development Partnership Administration (DPA) Division to deal with India’s development assistance programmes abroad, including LOCs routed through Exim Bank. These LOCs are now increasingly being extended to partner countries for large-scale and complex projects (project exports from India).

Bilateral or multilateral assistance, through Lines of Credit, typically follows a sequence of standard procedures, viz.
(a) project identification and preparation of Detailed Project Report
(b) review and approval of the project proposal,
(c) offer of the loan, acceptance and execution of loan agreement,
(d) preparation of the Detailed Project Report (DPR), prequalification of Indian companies, selection of the Indian contractor through bidding process by the LOC Recipient and coverage of contract under the LOC,
(e) project implementation, monitoring and supervision,
(f) socio-economic impact assessment after project completion.

The lessons learnt from the impact assessment / evaluation act as a feedback to the preparation, review and implementation of future projects. This process forms the ‘project cycle.’
Initiation of LOC Proposal

The partner country requests for an LOC accompanied with a pre-feasibility or a detailed project report, which would include, amongst others, the basis of estimated costs and justification of the project.

INDIAN MISSION IN THE PARTNER COUNTRY

Forwards proposal with their recommendations / comments

INDIAN MINISTRY OF EXTERNAL AFFAIRS

After Standing Committee clearance Recommends the proposal

INDIAN MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

Examines; if acceptable from finance/budget angle, conveys approval

EXIM BANK

Conveys terms (interest rate & credit period) & sends draft LOC Agreement

INDIAN MISSION IN THE LOC-RECIPIENT COUNTRY

Conveys offer of LOC

FORWARDS TERMS & DRAFT LOC AGREEMENT

LOC-RECIPIENT COUNTRY
MINISTRY OF FOREIGN AFFAIRS

Conveys offer
Automatic annulment of a non-operational LOC

There shall be automatic annulment of an LOC which does not get signed for a period of 18 months from the date of its approval by the Government of India. For justifiable reasons, this period could be extended by a maximum 6 months by the Government of India.

Signing of the LOC
Operationalising the LOC

Responsibility for repayment and servicing of loans under the LOC

- The LOC recipient is fully responsible for repayment and servicing of the loan.
- Liability of the Borrower/Recipient of the LOC, for repayment of principal instalments and payment of interest and other dues under the LOCs, to Exim Bank, is absolute and irrevocable, and is, in no way, linked to repayment/payment by sub-borrowers or to the completion of the projects/contracts covered under the LOCs, or subsequent operation thereof.
Contract Coverage

1. DPR Preparation
2. Tender Document
3. Vetting by Exim Bank
4. Prequalification
5. Competitive bidding process is mandatory.
6. Government of LOC-recipient to conduct fair and transparent selection

GOVERNMENT OF LOC-RECIPIENT COUNTRY

Requests for coverage of a contract under LOC accompanied by an evaluation report & reasons for selection of Indian company

EXIM BANK

1. Examines the proposals
2. Seeks information/clarification from the Government of LOC-recipient country/Indian Supplier/Contractor
3. Examines the projects in the light of provisions of the LOC
4. If found OK, conveys approval of contract

GOVERNMENT OF LOC-RECIPIENT COUNTRY

INDIAN SUPPLIER / CONTRACTOR
Requirements as to import of goods and services from India

- Goods and services (including consultancy services) for at least 75% value of the contracts covered under these LOCs must be sourced from India. A suitable relaxation not exceeding 10% may be considered on a case to case basis for exceptional reasons, especially in case of projects having civil construction.

- LOCs may finance upto 100% value of contract on FOB/CFR/CIF/CIP basis.

- Goods and services covered under the LOCs will be free from all kinds of taxes and duties of any nature whatsoever levied in the recipient country including all corporate / personal / value added taxes, import / custom duties, special levies and social security contributions for temporary employees deputed by Indian exporters in relation to the project execution in the recipient countries.

- Pre-shipment inspection of equipment / goods is mandatory.

Disbursements and Repayments under LOCs

- Indian Exporter / Contractor executes contracts

  - EXIM Bank

    - Claims disbursements from

      - Indian Exporter / Contractor executes contracts

  - EXIM Bank

    - Opens Letter of Credit (LC) in favour of

      - Buyer / Executing Agency

        - 1. Supplies equipment / goods
        - 2. Provides services

      - Buyer / Executing Agency

        - 1. Payment against conforming documents including Bill of Lading for supplies.
        - 2. Payment against Payment Authorization Certificate from Borrower Government in respect of advance payment, supplies, retention money and services rendered

      - Indian Exporter / Contractor

        - 1. Advises Disbursement
        - 2. Advises Repayment schedule as per the provision of the Agreement

      - Government of LOC-Recipient Country

        - Provides monthly statement on status of GOI-supported LOCs to

      - EXIM Bank

      - 1. Repayment of Principal Installments
      - 2. Payment of Interest

      - Government of LOC-Recipient Country

      - Indian Ministry of Finance, Indian Ministry of External Affairs

      - Government of LOC-Recipient Country
Terminal Disbursement Date

- All LOCs will have terminal disbursement date, i.e., the date falling on expiration of a period of 60 months after the scheduled completion date of project (for both project exports and supply contracts). Thus the unutilized portion of the LOC will be cancelled at the end of 5 years after the scheduled completion date of the project.

Monitoring Mechanism

A Joint Monitoring mechanism for monitoring the project execution for projects covered under the LOCs is required to be set up by the Government of LOC-Recipient country. The Mechanism would have representatives from the Government of LOC-Recipient country, Exim Bank and Indian Diplomatic Mission in the respective country. The Monitoring Mechanism is expected to ensure timely execution of the project as per the Detailed Project Report (DPR) and avoid / minimize cost over-runs. The utilisation and servicing of the LOCs are also monitored in addition to the project implementation status. The project monitoring involves two phases:

I. Project Execution Phase

- The Project Implementing authorities of the LOC Recipient countries are required to provide quarterly status reports to Exim Bank.
- Quarterly progress reports are required to be submitted by the Indian contractor to Exim Bank on the status of the project. Also, regular review meetings are conducted in India by Exim Bank with the Indian contractor for monitoring the project execution.
- In certain instances, Exim Bank may also undertake visits to manufacturing sites of the Indian contractors and the ports when the shipments are underway.
- In case of undue or protracted delay in project execution, a Joint site visit may be undertaken by Exim Bank and the Indian Diplomatic Mission with LOC-Recipient Government to ascertain the causes and initiate remedial action.
- In such cases, the frequency of the reports to be submitted to Exim Bank and the review meetings conducted may be increased to monthly from quarterly.

II. Project Completion phase

The Indian Diplomatic Mission is required to submit a project completion report to the Government of India and Exim Bank covering the present and future benefits of the project and its socio-economic impact on the country /region where the project is implemented. Inputs on the long-term economic interests created by the LOCs in the recipient countries may also be highlighted.
Section II:
Broad Guidelines and Procedures for Exim Bank’s Own Commercial Lines of Credit

Initiation of LOC Proposal

Signing of the LOC
Responsibility for repayment and servicing of loans under the LOC

- The LOC recipient is fully responsible for repayment and servicing of the loan.

- Liability of the Borrower/Recipient of the LOC, for repayment of principal instalments and payment of interest and other dues under the LOCs, to Exim Bank, is absolute and irrevocable, and is, in no way, linked to repayment/payment by sub-borrowers or to the completion of the projects/contracts covered under the LOCs, or subsequent operation thereof.
Requirement as to import of goods and services from India

- Goods and services for at least 85% value of the contracts covered under these LOCs must be sourced from India.
- Advance payment of at least 10% of the value of the contract to be borne by the LOC recipient/foreign buyer.
- LOCs may finance up to 90% value of contract on FOB/CFR/CIF/CIP basis.
- Pre-shipment inspection of equipment/goods is mandatory.
Disbursements and Repayments under LOCs

Terminal Disbursement Date

- All LOCs will have terminal disbursement date, i.e. the date falling on expiration of a period of 36-42 months from the effective date of LOC Agreement.

Monitoring Mechanism

The Monitoring Mechanism is expected to ensure timely execution of the major projects covered under the LOC, as per the detailed project report and avoid / minimize cost over-runs. The utilisation and servicing of the LOCs are also monitored in addition to the project implementation status. The project monitoring involves the following:

- The Project Implementing authorities in the LOC Recipient country are required to provide quarterly status reports.
- Quarterly progress reports on the status of the project are required to be submitted by the Indian contractor to Exim Bank. Also, regular review meetings are conducted in India by Exim Bank with the Indian contractor for monitoring the project execution.
- In certain instances, Exim Bank may also undertake visits to manufacturing sites of the Indian contractors and the ports when the shipments are underway.
- In case of undue or protracted delay in project execution, a joint site visit may be undertaken by Exim Bank with the LOC-Recipient to ascertain the causes and initiate remedial action.
- In such cases, the frequency of the reports to be submitted to Exim Bank and the review meetings conducted may be increased to monthly from quarterly.
Ahmedabad
Sakar II, Floor 1, Next to Ellisbridge Shopping Centre, Ellisbridge P. O., Ahmedabad 380 006.
Phone : (91 79) 26576852/26576843 Fax : (91 79) 26577696
E-mail : eximahro@eximbankindia.in

Bangalore
Ramanashree Arcade, Floor 4, 18, M. G. Road, Bangalore 560 001.
Phone : (91 80) 25585755/25589101-04 Fax : (91 80) 25589107
E-mail : eximbbo@eximbankindia.in

Chandigarh
PHD House, Floor 1, Sector 31-A, Dakshin Marg, Chandigarh 160 031
Phone : (91 172) 2641910/12/39/49 Fax : (91 172) 2641915
E-mail : eximcro@eximbankindia.in

Chennai
Phone : (91 44) 28522830, 28522831 Fax : (91 44) 28522832
E-mail : eximchro@eximbankindia.in

Guwahati
NEDFi House, Floor 4, G. S. Road, Dispur, Guwahati - 781 006
Phone : (91 361) 2237607, 2237609 Fax : (91 361) 2237701
E-mail : eximgro@eximbankindia.in

Hyderabad
Golden Edifice, Floor 2, 6-3-639/640, Raj Bhavan Road, Kharatbad Circle, Hyderabad 500 004.
Phone : (91 40) 23307816-21 Fax : (91 40) 23317843
E-mail : eximhro@eximbankindia.in

Kolkata
Vaniya Bhawan, Floor 4, (International Trade Facilitation Centre), 1/1 Wood Street, Kolkata 700 016.
Phone : (91 33) 22833419/22833420 Fax : (91 33) 22891727
E-mail : eximkro@eximbankindia.in

New Delhi
Statesman House, Ground Floor, 148, Barakhamba Road, New Delhi 110 001.
Phone : (91 11) 2332758/23321719 Fax : (91 11) 2332758/23321719
E-mail : eximndro@eximbankindia.in

Pune
44, Shankarseth Road, Pune 411 037.
Phone : (91 20) 26403000 Fax : (91 20) 26458846
E-mail : eximpro@eximbankindia.in

Addis Ababa
Bole Kifle Ketema, Kebele - 19, (03/05), House No. 015-B, Addis Ababa, Ethiopia
Phone : (251 116) 830079 Fax : (251 116) 810170
Email : sachieximbankindia.in

Dubai
Level 5, Tenancy 1B, Gate Precinct Building
No. 3, Dubai International Financial Centre, PO Box No. 506541, Dubai, UAE.
Phone : (971 4) 3637461 Fax : (971 4) 3637461
E-mail : eximdubai@eximbankindia.in

Johannesburg
Floor 2, Sandton City Twin Towers East, Sandhurst Ext. 3, Sandton 2196, Johannesburg, South Africa.
Phone : (27 11) 3265103/13 Fax : (27 11) 7844511
E-mail : eximjro@eximbankindia.in

Singapore
20, Collyer Quay, # 10-02, Tung Centre, Singapore 049319.
Phone : (65) 63526464 Fax : (65) 6352131
E-mail : eximsingapore@eximbankindia.in

Washington D.C.
1750 Pennsylvania Avenue NW, Suite 1202, Washington D.C. 20006,
United States of America.
Phone : (1 202) 223 3238 Fax : (1 202) 785 8487
E-mail : eximwashington@eximbankindia.in

London Branch
5th Floor, 35 King Street, London-EC2V8BB
Phone: (00 44) 20 77969040 Fax: (00 44) 20 7600936
E-mail: eximlondon@eximbankindia.in