INDIA EXPORTS

REPORT OF STUDY GROUP ON EXPORT FINANCE

सत्यमेव जयते

1963

DIRECTORATE OF COMMERCIAL PUBLICITY, MINISTRY OF COMMERCE AND INDUSTRY, GOVERNMENT OF INDIA, NEW DELHI

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Chapter One

INTRODUCTORY

The Ministry of Commerce and Industry (Department of International Trade) appointed the present Study Group on May 31, 1962, to review the credit facilities available in the country for developing India's export trade; to determine, in the light of the current and prospective demand for export credit, the measures which would be necessary to strengthen and supplement the existing financial institutions; and, in particular, to consider :

(a) the institutional arrangements to provide short-, medium- and long-term export finance on a liberal and widespread basis;

(b) the policy on the concessional rates of interest and discount chargeable to exporters by various lending institutions;

(c) whether it is necessary to set up an 'Export Finance Corporation' or an 'Export Credit and Guarantee Corporation';

(d) the steps necessary to achieve the above.

Composition

2 The composition of the Group was as follows :

(i)	Shri K. P. Mathrani Chairman, Industrial Finance Corporation of India, New Delhi.	Chairman
(ii)	Shri B. N. Adarkar, Additional Secretary, Ministry of Economic and Defence Co-ordination, New Delhi.	Member
(iii)	Shri A. Baksi, Joint Secretary, Ministry of Finance, Department of Economic Affairs, New Delhi.	Member
(iv)	Shri R. S. Bhatt, Executive Director, Indian Investment Centre, New Delhi.	Member
(v)	Shri T. C. Kapur, Formerly Managing Director, Export Risks Insurance Corporation, Bombay.	Member
(vi)	Shri K. N. R. Ramanujam, Director of Banking, Reserve Bank of India, Bombay.	Member
(vii)	Shri K. S. Sundara Rajan, Joint Secretary, Ministry of Finance, Department of Economic Affairs, New Delhi.	Member
(viii)	Dr. S. P. Chablani, Managing Director, Export Risks Insurance Corporation, Bombay.	Member-Secretary

(*Note.*—After attending some meetings, Shri Kapur resigned from the Committee.)

Proceenure Followed

3 We issued a short questionnaire to, and invited the views of, the Indian and Exchange Banks' Associations, the various Export Promotion and Development Councils, Trade Associations, Commodity Boards and the Development Councils on the specific aspects of our enquiry (vide Appendix 'B'), and discussed the issues with their representatives (vide Appendix 'C') at Bombay, Calcutta and Delhi. We conferred with the Minister and Secretary of the Department of International Trade and the Governor and other senior officers of the Reserve Bank. We also consulted some persons having special knowledge and experience of India's export trade.

Earlier Studies

4 In April 1960, the Ministry of Commerce and Industry had constituted a Study Group, under the chairmanship of Shri T. C. Kapur, to examine the question of liberalising and improving the credit facilities available to exporters in India. The Group submitted its report in March 1961 and made several recommendations, the more important of which sought to :

(i) amend the Reserve Bank Act to extend the period of export bills eligible for rediscounting with, or grant of advances by, the Reserve Bank up to 180 days, and to extend loans against usance export bills on the security of promissory notes of scheduled banks;

(ii) exempt usance bills and packing credits for the purview of its control measures in respect of the volume and cost of scheduled bank credit;

(iii) relax the Foregin Exchange Regulation Rules, 1952, in suitable cases to grant credit facilities to importers abroad up to a period of five years;

(iv) modify the agreements governing the working of the Refinance Corporation so as to enable it to grant export credit for medium-term periods;

(v) amend the tSate Bank of India Act to premit the grant of export credit for medium-term periods;

(vi) permit ERIC (the Export Risk Insurance Corporation) to cover pre-shipment risks of advances made by private organisations other than banks.

5 The aforesaid recommendations have, in the main, been accepted. The Reserve Bank and the State Bank Acts have been amended; the agreement with the U. S. authorities governing the working of the Refinance Corporation has been revised so as to make eligible for refinance by the Corporation any loans—up to Rs. 50 lakhs in a single transaction—advanced by banks in India to exporters for granting credit facilities to their overseas buyers up to a period of 5 years.

Export Targets: Foreign Exchange Requirements

6 The fulfilment of India's plans of development depends, in no small measure, upon the success of our export drive. Recently, the entire question was examined in its various ramifications by a Committee under the chairmanship of Dr. Ramaswami Mudaliar. The Committee underscored the need for a sustained effort on a national plane for stepping up the exports of India goods, and suggested several important measures of export promotion such as increased allocation of raw materials to exporting industries, grant of freight concessions, introduction of speedy and simplified procedures for drawback of customs duties and relief from sales and income tax.

7 The foreign exchange required for the implementation of the Third and the Fourth Five-Year Plans will be of a high order. The total investment under the Third Plan is estimated at Rs. 10,400 crores. In this framework, the cost of 'development imports' is likely to be Rs. 2,100 crores. Apart from this, a sum of Rs. 3,650 crores would be required to provide for what is described as 'maintenance imports' (exclusive of food imports of Rs. 600 crores under PL 480*). In fact, the Plan states that the maintenance needs may be somewhat larger, corresponding to about Rs. 3,800 crores over the five-year period. Nor is the country likely to have any net surplus of 'invisible' income**; and, in order to finance the 'maintenance' imports alone, our exports over the Third Plan period would have to range around Rs. 3,700 crores—an annual average of Rs. 740 crores. The import requirements of the succeeding plans are likely to be larger still. So will be the service charges on our external debt; and it is reckoned that, to maintain the desired tempo of development, the country would need to export at the rate of some Rs. 1,300—1,400 crores per annum at the end of the Fourth Plan—i.e. at "twice the present level"†. It is pertinent to mention that there was little variation in our export earnings throughout the Second Plan period, which averaged around Rs. 612 crores per annum. The performance during the first two years of the current Plan has not kept pace with expectations, for our exports in 1961-62 were of the order of Rs. 661 crores and Rs. 695 crores in 1962-63††. As a result of this shortfall, our balance of payments position continues to be acute. Meanwhile, the emergency that has arisen from the Chinese aggression makes a heavier draft on our national resources which have had to be geared to the requirements of defence as well as development. Consequently, the economy has been, and will continue to be, subject to severe stresses and strains. The task of raising India's exports to the targetted levels, therefore, has become all the more urgent; it requires sustained and vigorous effort both from Government and the business community.

8 We are faced, at this juncture, with many difficulties. Our traditional items of export—tea, jute manufactures and cotton textiles—are subject, on the one hand, to severe fiscal and quantitative restrictions abroad and, on

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**Vide* the Third Five-Year Plan, para 11, page 138.

**The latest indications are that there might be a sizeable deficit on this account.

†*Ibid.*

††Estimated—*vide* Press Note of the Department of Commercial Intelligence and Statistics, dated 20th April, 1963.

the other, to growing competition from various countries as well as from emerging substitutes. Other items like manganese ore and raw wool face serious rivalry in the international market; and India has not been able even to maintain the past levels of exports. Furthermore, the domestic demand over a large sector of our industrial and agricultural products has been continuously rising; and despite substantial increase in their output the supplies available for export have been rather limited. The internal prices for many of these commodities are considerably higher than the comparative prices in overseas markets and, consequently, prove so attractive to indigenous producers that there is little or no incentive for them to put forth the requisite effort to augment their exports. Owing to import restrictions on grounds of balance of payments, the domestic market in many of these items is immune from competition, foreign or internal; and we believe that it is likely to remain sheltered for a considerable time. The recent measures of tax relief in respect of exports may alleviate the situation to an extent. Nevertheless, we feel that the task of increasing our exports is by no means an easy one.

9 The problem of developing India's exports over the next five to seven years is, in essence, one of increasing our agricultural and industrial productivity and output so that while the growing domestic demand is reasonably met, there is a surplus available for export. The increase in export surpluses can perhaps be brought about more easily in traditional items like textiles and jute manufactures, tea and coffee, vegetable oils, spices and tobacco. But, as we have observed above, the overseas demand for these items is not so dependable; and, consequently, their capacity to augment our export earnings is limited. While we will have to continue our efforts to improve the exports of our traditional items, we are inclined to think that it is the export of our non-traditional items like light engineering and capital goods as well as chemicals, drugs and pharmaceuticals that we should look to for an appreciable rise in our exchange returns. These new items too will face severe competition in the matter of price and quality from industrially advanced countries, already well established in the world market. Therefore, Indian merchants will have to put in a great deal of effort to find new outlets for their products by carrying out market surveys and setting up of selling and servicing organisations abroad. We cannot hope to sell these products in substantial quantities in the industrially advanced countries, and will have largely to concentrate our efforts on exploring new markets in Europe, Latin America, South-East Asia, Middle-East and Africa.

10 In our view, a large-scale rise in the level of our exports will depend primarily on our ability to offer goods at competitive prices and to establish and maintain high standards of quality and finish. Equally important is strict adherence to stipulated dates of delivery, specially in relation to export of capital goods in the manufacture of which we are making a beginning and may record marked progress in the coming years. We note that Government have already introduced a bill in Parliament for pre-shipment inspection and quality control, and have set up an Inspection Advisory Council in this connection. Government have also appointed an expert body to look into the cost structure of our major export products.

11 Having referred, in brief, to some of the basic factors of export promotion, we shall proceed to discuss, in the following pages, the role of credit in the promotion of our export trade which is the main theme of our Study.

12 The two prongs of credit and export risks insurance have become an important element in international trade and have assumed, in recent years, a new significance as a vehicle of export promotion the world over. Export finance, however, is but one instrument in our armoury of export promotion. Liberal credit facilities, by themselves, will not be of much avail, if the costs of Indian goods remain high, prices uncompetitive and quality and deliveries uncertain. Therefore, in our deliberations, we have endeavoured to take an overall, long-term view of the problem of export finance in the general framework of our export targets and exchange needs as well as the credit facilities and institutions obtaining in other countries with which Indian exporters will have to contend. And the measures which we have proposed in the domain of export finance and credit insurance should be deemed as part and parcel of an integrated trade policy, designed to give the necessary stimulus to our exports in an effort to achieve the targets of our plans of development.

CHAPTER TWO

SUPPLY OF CREDIT

The reconstruction and expansion of the economies of the world since the end of the last war have brought about significant changes in the character and composition of world trade. Every industrially advanced country has been trying to accelerate the rate of its economic growth and to maintain a high level of production to satisfy not only domestic demand but to enlarge export trade. New methods are being employed by them to capture overseas markets. Exports of consumer and durable goods have been continuously stepped up; and vigorous efforts have been made to supply capital goods in the form of machinery and equipment to a wide range of markets especially in the developing countries. Prof. Cairncross's analysis shows that the share of capital goods in the world trade (machinery, vehicles and electrical equipment) has risen impressively from 12.5 per cent to 37.7 per cent over the first half of this century.* Evidence for later years reveals an even more pronounced accent on the exports of engineering products in the world market.

2 Altogether, competition in the world market both for capital and consumer goods has become intense. Especially for countries like India, the task of increasing their export trade is rendered all the more difficult by import restrictions, tariff barriers and the formation of economic communities.

Importance of Credit

3 In this situation, the bargaining power has slipped from the seller into the hands of the buyer. The buyer now dictates terms in regard to price, quality and dates of delivery; and, above all, insists, more than ever before, on credit terms. The availability of an adequate supply of credit at reasonable cost, therefore, greatly facilitates the task of the exporter and serves as an incentive and inducement to him to buckle his efforts. The difficult balance of payments position in many countries makes it imperative for importers to ask—and sometimes to hold out—for credits of varying duration. Credit terms often influence the buyer's choice of his supplier and may well decide his source of supply. Indeed in some countries the source of external finance and payment terms are often reckoned, by the import and exchange control authorities, nearly as deciding a factor as price and quality; and official regulations have been aimed, for understandable reasons, at influencing payment terms.

4 Export credit—its availability and cost—has thus become an important element in international trade. Exporters, being unable to finance large-scale trade operations on credit terms in the overseas markets out of their own resources, have had naturally to turn to their governments and to their financial institutions for help. In consequence, the leading exporting countries of the world like U.S.A., U.K., Germany, France, and Japan, have been compelled by the logic of events to develop their own systems and

*Cairncross—*World Trade in Manufactures since* 1900, page 730; also see GATT reports on "*International Trade*", 1959 and 1960.

institutions of export finance* with a view to fostering their external trade. It is against this background that an attempt has been made to analyse the problem of supply and cost of short-, medium- and long-term credit, in its broad perspective, in the light of the country's needs.

Need for Credit Facilities

5 An export drive designed to attain, in the next seven to eight years, the targets of the Fourth Plan will, in addition to vigorous measures outlined above, require credit facilities over a wide range of our export trade. In this context, both availability and cost of credit will call for a detailed assessment. We have, therefore, examined the types of demand which exist, or are likely to emerge in the coming years, for short-, medium- and long-term export finance, and evaluated the credit facilities currently available in India. We have also tried to determine the lacunae, if any, in the present institutional arrangements and discussed the measures which might be taken to strengthen and supplement the existing financial arrangements in the country.

Categories of Credit

6 Export credit may be classified from two main stand-points. The first relates to the stage at which it is provided. Credit extended for facilitating production, processing, or packing of export goods up to the point where they are placed on board the ship is termed as 'pre-shipment' credit. The financing of export goods from the stage of shipment to the date of realization abroad is known as 'post-shipment credit'. Secondly, credit is also viewed in terms of its duration—short-, medium- and long-term. 'Short-term' credit generally implies 'accommodation' for a period not exceeding six months; 'medium-term' credit covers a period of over six months but not in excess of five years; long-term credit relates to periods beyond five years.

7 The two aspects may overlap and shade one into the other. Thus pre-shipment or post-shipment finance may be either for short or for medium term. Of course, long-term credit is generally for post-shipment. Then again, pre-shipment credit may take either of the two forms : first, it may be extended to manufacturing units producing goods for sale in the domestic market as well as abroad. Such units secure borrowing facilities, in a majority of instances, in the form of cash credit or overdraft arrangements against their floating assets and/or guarantees furnished by their directors or managing agents. Within the agreed cash credit or overdraft limits which are reviewed periodically—and generally renewed—the daily outstandings of the borrowing units fluctuate, depending upon the stocks of raw materials and finished goods pledged or hypothecated by them with the banks. In some cases, pre-shipment credits also take the form of loans repayable on demand, but renewed periodically. Strictly speaking, these two types of credit constitute short-term credit; but a part of them tends to assume the character of medium-term credit by reason of its continual renewals. The second form of pre-shipment credit relates to packing credit, which banks in India generally provide to merchant-exporters for the preparation of goods destined for the export market.

*A brief description of the credit facilities available in other countries is given in Appendix 'A'.

Short-term Finance

8 Essentially, the problem of export credit boils down to its : (*a*) availability, and (*b*) cost. We have examined both the issues in their various ramifications.

The Pre-shipment Stage

9 The question of availability of pre-shipment credit needs to be viewed from the stand-point of both the manufacturer-exporter as well as the trader engaged in export business.

10 We have tried to ascertain the position regarding the supply of short-term credit to the manufacturers who have entered the export field. As they produce goods which are both for the domestic market as well as for export, their short-term credit requirements are in the nature of working capital. It is, therefore, possible to obtain an overall view of the availability of credit to manufacturers from the advances of scheduled banks to industry. We observe that bank credit to industry has increased considerably during the Second Plan period. Industrial advances have more than doubled, having risen from Rs. 305.5 crores in December 1956 to Rs. 660.0 crores in October 1961. The increase was evidence not only in absolute figures but also in the proportion of industrial advances to total bank advances which rose from 38.5 per cent in Dcember 1956 to 54.2 per cent in October 1961.*

Advances of Scheduled Banks to Industries in relation to Industrial Production

Period ending (1)	Advances to Industry (2)	Total Advances (3)	Percentage of (2) to (3) (4)	Index of Industrial Production (5)
	Rs. Crores	Rs. Crores		(Year 1951=100)
1951 December	194·9	583·3	33·4	100·0
1956 December	305·5	793·6	38·5	132·6
1959 October	418·5	935·7	44·7	152·1
1960 October	562·8 (34·3)	1,100·0	51·2 (3·1)	169·7
1961 October*	666·0 (36·3)	1,227·7	54·2 (3·0)	180·9
Percentage increase over 1951	+241·7@ (+223·1)@@	+110·5		+80·9

†Later figures not available

NOTE —Prior to April 1960 advances to plantations were included under agriculture but since then they are included in industry. Figures of advances to plantations which are separately available since 1960 are shown in brackets below the total.

@Unadjusted for plantation advances.

@@Adjusted for plantation advances.

**Source* : Annual Reports on Trend and Progress of Banking in India, published by the Reserve Bank.

11 In this development, it would appear that 'new' industries claimed a relatively large share of increase in the advances of scheduled banks. The table below which reflects the advances to industries—in loans, overdrafts, cash credits and bills negotiated by banks—would indicate that the share of the engineering industries rose from 2.7 per cent in December 1951 to 10.4 per cent in October 1961, and that of chemicals, dyes, paints and pharmaceuticals from 1.5 per cent to 3.0 per cent. The share of iron and steel and cement industries also showed a substantial rise.

*Proportion of Advances to Important Industries to Advances of Scheduled Banks**

(Amount in Rs. crores)

Industry	End of 1951		End of Oct. 1961**	
	Amount	Percentage to total	Amount	Percentage to total
(i) Cotton Textiles	46·6	8·0	137·1	11·2
(ii) Iron & Steel	5·2	0·9	35·2	2·9
iii) Engineering	15·6	2·7	128·1	10·4
(iv) Sugar and Gur	17·2	3·0	73·7	6·0
(v) Chemicals, Dyes, Paints and Pharmaceuticals	8·5	1·5	36·6	3·0
(vi) Cement	0·8	0·1	19·3	1·6

12 It should, however, be borne in mind that it is not easy to identify the extent of credit advanced by banks specifically for financing the export trade in the total credit advanced by them to industry and trade. The significant rise of bank credit to the 'new' industries—the exports of which constitute a relatively small proportion of their total output—may suggest that their export credit needs at the pre-shipment stage would have been generally met. Nevertheless, we gathered the impression that exporters have some special problems and difficulties in obtaining pre-shipment credit which tend to hamper their export effort. No doubt, the established industries are able to obtain their credit requirements from the banking system. Also, those who are engaged in the traditional lines of export and enjoy the facility of letters of credit opened by their overseas buyers do secure packing credit from banks. But, when it comes to new markets for the traditional goods or new lines of export, not all exporters find it easy to obtain the necessary pre-shipment finance from banks, unless of course they are persons of undoubted means and standing. We have found, during the course of investigations, that the medium class exporters or what may be termed as the 'second line' borrowers—men of limited means but with reputation for honest dealings—stand in need of adequate financial assistance. We give below some illustrations, where lack of credit facilities

**Source* : Annual Reports on Trend and Progress of Banking in India, published by the Reserve Bank.

**Later figures not available.

of one type or another at the pre-shipment stage has hindered to some extent the prospects of export :

(a) The representatives of the manufacturers of chemical industries have stated that commercial banks are prepared to give them credit against letters of credit; but they find it difficult to get pre-shipment credit on firm orders. Chemicals and pharmaceuticals are items which have recently entered into our export trade and offer promising prospects.

(b) As regards merchant-exporters, who are essentially men of modest means, there are two problems. First, for every merchant-exporter, the lending bank fixes, for understandable reasons, a ceiling in the light of its own assessment of his financial standing and credit-worthiness, and would not be inclined to raise it despite his ability to show a better export performance. In our view, the ability to improve export performance is an important consideration; and, in deserving cases, credit facilities should be so provided as to help the exporter to augment his export effort. Secondly, it has been represented to us more than once that the second line borrowers are able to get at best between 50 to 75 per cent of the F.O.B. value of their exports; and as export values of many items are well below domestic prices, it happens that this class of exporters really get between 40 to 60 per cent of the market prices of their goods in India. The problem is not peculiar to the merchant-exporter of the second line alone; but it undoubtedly presses hard upon him. We shall deal with this matter in paras 14 and 23(iv) below.

(c) The cashewnut exporters have also represented to us that they experience considerable difficulty in getting adequate seasonal credit which they need by way of working capital from the time of import of raw cashew to the point of shipment of the processed nut. If this period goes beyond three months, the banks are unwilling to lend against stocks of raw nuts, except on production of firm export orders for the finished product. The paucity of finance often results in distress sales and consequent loss of foreign exchange.

(d) The mica trade suffers from the disadvantage of having the ore at the pit head for a fairly long time before it can be transported to the ports and shipped abroad. The mica exporters require finance for the duration between mining and shipment.

(e) There is also the problem of goods like precious stones and jewellery which are sent abroad on consignment for "approval". The sale of these goods takes place after considerable time and, therefore, the payments are delayed. Meanwhile, the banks are usually reluctant to lend against such exports. Bank credit is also not available against stocks of imported material, even though the latter is assessed by the Customs authorities and covered by specific undertakings to export the finished products. It has been represented to us that exports in this line are of the order of about Rs. 8 crores; and these could be substantially enlarged, if adequate credit facilities became available.

These are but a few illustrations in the area of export credit which the banks are either unwilling, or do not consider worthwhile, to support.

13 During our discussions with bankers, we have found that their experience hitherto of the new markets in the East European countries, Middle East and South-East Asia has not been altogether satisfactory and there is natural hestitation and caution on their part in granting credit for exports to some of the countries in these areas. In some cases, credit is demanded for a much longer term than is normal for the type of goods offered for sale; for instance, in one country importers have asked for on year's credit for an item like cotton textiles. In other cases, buyers ask for longer terms of credit as they do not have the requisite foreign exchange to pay for imported goods on delivery, but hope to arrange payment through resale of these goods to other markets. We do appreciate that banks are unable to give accommodation in cases of this kind because, in their view, the risk involved is more than ordinary. The problem essentially is one not merely of adequate security but of assessing the risk on the basis of information about the markets and overseas buyers. We were told that when there is a guarantee from a reputable bank in the overseas market, the Indian banks grant the advances in the normal way. But in the case of some new markets Indian banks have no means of getting reliable information about the stability of the market, the payments position of the country concerned and the financial standing and credit-worthiness of individual importers. It is easier for them to transact business in the traditional markets because they have long established connections with their correspondents on the other side who provide authentic and dependable advice regarding the markets as well as individual buyers. The solution to the problem of facilitating grant of credit for exports to new markets should, therefore, be found by making available similar facilities to the Indian banks through other means. We feel that, first, representatives of exporters and Indian banks should be encouraged to explore overseas markets and establish connections with the banking institutions and importing agencies at the receiving end. Secondly, the machinery for providing continuous information regarding the pattern of trade, market conditions and business links for Indian exporters with local buyers abroad should be strengthened. If this is accomplished in some measure, it should be possible for Indian banks to provide credit facilities to Indian exporters in these new areas in the same manner as they do in other markets. We realise that it will take some time before this can be done; but meanwhile we cannot afford to lose our trade in these markets. It will be necessary, therefore, for Government to devise *ad hoc* measures for obtaining reliable information regarding the markets in these countries and encouraging Indian banks to take active interest in granting credit facilities for exports to them.

14 Another important problem which faces a large number of exporters—manufacturer-exporters as well as merchant-exporters—is the financing of the 'gap' between the domestic prices and international prices of goods they export from India. There are at present in operation various schemes of incentives for export promotion. These are intended to compensate, at least to some extent, the exporter for the 'difference' in the two sets of prices. These comprise entitlement to import licences, pool arrangements,

tax reliefs, etc. The representatives of Export Promotion Councils and trade associations have informed us that where the incentives take the form of import licences for raw materials or components, considerable time elapses before the exporter is able to make good the 'loss' on his export. This time lag diminishes the value of the incentives and renders the incentive scheme ineffective to that extent. When the exporters approach commercial banks for credit, the latter are prepared to make the advances on the basis of international prices, with the result that if the domestic prices are 20–25 per cent higher, the amount of credit which the exporters can get would be of the order of about 60–70 per cent in terms of the domestic prices. When credit is provided subject to such a large margin, the exporter finds it difficult to finance the balance of 40 per cent.

15 In our view, it is important that the issue of incentive licences should be expedited and the procedure simplified as far as possible. During our discussions with the Engineering Association of India, a suggestion was made that when imports are needed specifically for the production of goods intended for export, an import licence may be issued forthwith. The banks' certificate to the effect that payment has been received or a certificate from ERIC signifying the fact of insurance of the shipment concerned should be deemed to be sufficient evidence of export. If the goods are accepted by the buyer, the import entitlement may be confirmed; if for any reason goods are not accepted, then the quota of imports in the next quarter may be suitably adjusted. The suggestion may be considered by government. The purpose of the incentives scheme is to assist the exporters so that once the goods earmarked for export leave the shores of India, the requisite imported raw materials and other items are made readily available to him. We realise that this is intimately linked up with our balance of payments position; but it would greatly enhance the effectiveness of the scheme of incentives if some arrangement could be devised whereby the exporters are enabled to obtain credit, as far as practicable, on the basis of domestic prices with due regard to the schemes of incentives obtaining in respect of different articles and not merely on the basis of the value of the goods exported. Under the existing rules, a licence is not transferable. We consider this a sound principle, for the incentive must go to the party for whom it is intended. The position, therefore, is that lending against export incentives involves a type of risk which the commercial banks cannot assess and undertake, and for which its provision exists at present even under the policies of ERIC. This problem requires careful consideration and will be dealt with again in para 23(iv).

The Post-shipment Stage

16 Post-shipment credit may take the form of either 'negotiation' of export bills (demand and usance) or 'acceptance' of export bills for collection. Export bills are drawn by exporters either against letters of credit opened in their favour by foreign importers or against firm orders from abroad.

17 According to a tentative estimate of the Reserve Bank, about 50 per cent of total exports from India are financed against letters of credit. Bills drawn otherwise than under letters of credit account for about a third; and consignment exports for about one-eighth of our total exports. The bulk of our

exports in jute manufactures, raw cotton and hides and skins are usually financed under letters of credit; whereas a large part of export of tea is through inter-branch adjustments between the principals abroad and the subsidiaries in India or in the form of consignments for sale.

18 Consignments are also common in respect of exports of mica, manganese and iron ores, carpets and handicrafts, precious stones, tobacco and a few other miscellaneous items.

19 The table below shows the proportion of bills of exchange negotiated and accepted for collection, by banks in recent years :

*Export Finance provided by Banks in relation to Total Exports**

(Rs. crores)

	1957	1958	1959	1960	1961
1. Export bills negotiated by scheduled banks	460	410	453	476	493
2. Export bills accepted for collection by scheduled banks	145	124	120	130	132
3. Total exports..	643	585	621	634	665
4. (1) as percentage of (2)	71·5	70·1	72·9	75·1	74·1
5. (2) as percentage of (3) ..	22·6	21·2	19·3	20·5	19·8

Note : Later figures are not yet available.

20 It will be seen that the proportion of export bills accepted for 'negotiation' to total exports had increased from 71.5 per cent to 74.1 per cent between 1957 and 1961. The proportion of bills for 'collection' to total exports had, on the other hand, dropped from 22.6 per cent to 19.8 per cent. Even so, the ratio is rather high, considering that from the viewpoint of banks' earnings, as well as the availability of funds to exporters, 'negotiation' of bills should be preferable to their collection.

21 In order to examine whether the banks could provide better facilities to exporters in this regard, the Reserve Bank issued, at our request, a special questionnaire to the major banks accounting for a sizeable share of export bills accepted by them for collection. The replies received from them showed that the export bills had been accepted by them for 'collection' for a variety of reasons, such as the doubtful status of the drawer, inadequate information on foreign buyers, the risk of perishability of the commodity or wide price fluctuations in it, the economic and political instability of the importing country. In many cases the relevant export bills covered consignments for sale, and there is no certainty when the goods would be sold and what prices they would fetch. In others, the payment of the bills was subject to inspection of goods, or the market for the commodity was limited, at the importing end.

22 The data furnished by the banks also revealed that as much as 71 per cent of the total volume of bills accepted by them for collection in 1960 was

**Sources* : (*i*) Interest Rates on Deposits and Advances—A note published in the Reserve Bank of India Bulletin Sept. '62.

(*ii*) Monthly Statistics of Foreign Trade of India.

from the big exporters (each with an annual export turnover of Rs. 10 lakhs and more). The share of the medium exporters (i.e. those with an export turnover of Rs. 1 to Rs. 10 lakhs) in this behalf was of the order of 19 per cent; whereas the small exporters (i.e. those with exports of less than Rs. 1 lakh) accounted for the remaining 10 per cent. As the bulk of the exporters whose bills are accepted for collection are predominantly big exporters, it should be assumed that they should have been able to obtain advances from the banks up to 70 per cent of the invoice value of the goods; and the problem of credit facility in respect of bills accepted from them for collection would be only marginal. Thus, it is predominantly the small and medium class exporters who seem unable to get from banks their full requirements; and about their position a reference has already been made in the foregoing paragraphs.

Some Suggestions

23 Having enumerated some of the difficulties of exporters at the pre-shipment and post-shipment stages, we offer a few suggestions :

(i) PRE-SHIPMENT CREDIT FACILITIES

It seems that, on the whole, the pre-shipment credit requirements of the big and established exporters—merchants and manufacturers—are being met by Indian and exchange banks.

We have referred, however, in para 12 above to some of the difficulties of exporters in getting credit from banks to meet their requirements. Banks, no doubt, give packing credit—i.e. finance at the pre-shipment stage for the purpose of purchasing, processing and packing goods for the export market. These facilities are normally available to persons of undoubted means and standing. But they are somewhat hesitant in making such advances to the second line exporters—men of limited means, but known for honest dealings and capable of giving a satisfactory export performance.

We observe that ERIC is now offering a cover—'the packing credit policy' as it is called—which is designed to assist exporters to secure credits somewhat above the line of the bank's normal rating of their capacity. ERIC indemnifies the lending institution against exporter's default to the extent of 50 per cent of the loss. We are informed by ERIC that this facility is being progressively availed of. Last year packing credit to the tune of Rs. 2.58 crores was obtained by exporters on the basis of ERIC's cover, as against Rs. 50 lakhs in 1961. Indeed, in the first three months of the current year, the figure has already reached Rs. 1.5 crores; but it should be possible to make this policy even more widely known to exporters and the managerial personnel in the branch offices of Indian and exchange banks.

It has been represented to us by some banks that if ERIC could raise the limit of its indemnity to them, they will be prepared to liberalise their pre-shipment advances to exporters. We understand that ERIC's experience in regard to its packing credit policy has been satisfactory; and it seems to us that ERIC could enhance its guarantee to banks from the present limit of 50 per cent to 66-2/3 per cent, without incurring undue risk and with considerable advantage to exporters.

We feel that if the proposed measure is taken the kind of difficulties referred to at (a), (b), (c) and (d) in para 12 above would, to some extent, be resolved. The relative importance of this type of credit is likely to increase, with the rise of small and medium scale industrial units and new categories of exporters. We suggest that the Reserve Bank should obtain, periodically, information on packing credit advanced by banks and exercise its moral suasion with them to follow a more liberal policy.

(ii) Post-shipment Credit Facilities

It may be mentioned here that whenever a bank grants packing credit facilities to exporters it normally gives them also the facility to discount their bills. It seems to us that when, on the basis of the proposed improved guarantees to banks by ERIC, packing credit facilities become available in a more liberal measure exporters will also be eligible for the discounting facilities, which, at the moment, are not readily available to them. Thus their problem of post-shipment export credit will be considerably facilitated, the more so if exporters partaking of the benefits of packing credit facilities also obtain ERIC's 'Shipments Risks Policies' which will give them complete protection against commercial and political risks arising from default or insolvency of the buyer or hazards of political upheavels, embargoes on exchange remittances, import restrictions etc. ERIC's policies are a useful collateral acceptable to banks; and if the knowledge about their benefits spreads more widely among exporters and full use is made of them, the banks, in our view, will be more forthcoming in discounting the exporters' bills which are now accepted only for collection.

(iii) Facilities in respect of Exports on Consignments

With regard to export credit in respect of items sent abroad on consignment basis, we should like to observe that the main items are tea, mica, iron and manganese ores, handicrafts and tobacco. These goods accounted for nearly 64 per cent of the total bills accepted by leading banks for 'collection' in 1961. As far as tea is concerned, the drawers, in the main, are the producers themselves; and so the need of export credit in their case, by and large, does not arise. On the other hand, in the case of mica, mineral ores and handicrafts lack of standardization and wide price fluctuations render the task of banks somewhat difficult. Indeed, the banks can do little to help these exporters, unless steps are taken by Government to provide suitable pre-shipment inspection and grading facilities; and, if necessary, guarantees to banks against losses based on pre-shipment inspection, grading and standardization of goods.

(iv) Credit against the Price Gap

We have referred above [*vide* paras 12(b) and (14)] to the difficulties experienced by exporters in getting the requisite credit on account of the price gap between the domestic prices and the international prices. Bank credit is related to the value stated in the shipping documents, which is often lower than the domestic price of the goods in question. The main difficulty arises from the fact that the exporter has to recover the difference between the domestic price and the lower international price when he realises his entitlement by way of import licence. This involves, as we have seen, a time lag during which the exporter has to find finance to bridge the gap. To take an elementary example, supposing the f.o.b. value of exported goods is Rs. 1,00,000. Normally the banks might advance the exporter 80 per cent of this amount—i.e. Rs. 80,000. Assuming that the domestic value of the goods is Rs. 1,20,000, the exporter could, in the case of local sales, hypothecate these goods with the bank, which would lend him 80 per cent of this amount—i.e. Rs. 96,000. In other words, the credit to the exporter on the basis of his export bills falls short by Rs. 16,000 on account of the price gap. The core of the problem, in our view, is the bank's expectation of recovery of the amount which it lends to the exporter in respect of the goods exported. Once the goods are shipped, the bank's security is the expectation of recovery from the bank of the importer at the other end. For the difference in price, however, it has to depend only on the security which the exporter can furnish. If he has the means of giving additional security the banks, we are sure, would not hestitate to grant the additional credit. But this would be in the nature of a personal advance to the exporter concerned; and an exporter who does continuous business would not be able to find additional security for every shipment of goods involving a price gap. In this situation we think some system should be evolved whereby the problem can to some extent be solved. To enable the bank to lend the *additional* sum of Rs. 16,000 mentioned above, assurance should be given that should the exporter fail to repay the sum, the bank will be recompensed to an agreed extent. We have thought over this question and have come to the conclusion that a scheme of guarantee should be evolved in consultation with the Reserve Bank, on the basis of which the banks would be covered against the loss in financing the difference between what they would normally lend on the basis of export bills and the domestic value of goods destined for export.

It is true that the size of price gap varies from commodity to commodity. The credit margin against the shipping documents, too, would vary from client to client and bank to bank. To simplify matters, we would suggest that the guarantee might cover *up to* 25 per cent of the f.o.b. value of the goods exported, the size of the price gap or the amount to be covered being left to the lending bank to determine. The provision of guarantee will be a continuous operation; and there should be an agency which should administer the guarantee function and work in close cooperation with banks.

The guarantee scheme may be somewhat on the lines of the guarantee scheme of the Reserve Bank for assistance to small-scale industries and that of the Refinance Corporation in respect of loans to collieries in the private sector. We consider that it would be appropriate that the administration of the scheme be entrusted to ERIC. Should any loss occur, ERIC could have recourse to the guarantee scheme, much in the same way as do the Reserve Bank and the Refinance Corporation. ERIC will, no doubt, maintain a separate proforma account of these transactions to be able to review the position from time to time and replenish its resources. ERIC's 'price gap' cover would be operated much in the same way as its 'packing credit' policy. We suggest that ERIC's indemnity to the banks should be 75 per cent of the possible loss; and the amount should be reimbursed to the banks six months after the due date of payment. We should add that on the implementation of our recommendations in Chapter Four regarding the institutional arrangements and the reconstitution of ERIC this activity would *inter alia* be transferred to the new institution.

24 We also recommend that the Reserve Bank should give additional borrowing facilities to the banks to enable them to finance the transactions arising from the 'price gap' mentioned above.

25 As a safeguard, we suggest that the proposed scheme should ordinarily apply only in respect of such exports as come within the purview of the export incentive schemes. This would make it possible to deal with defaulters departmentally; their import licences/benefits under the scheme, which are of considerable value to them, would be suspended and they would be put on the black-list in the event of default. There may also be items like ferro-manganese which do not fall within the scope of any particular incentive scheme, but, nevertheless, present the problem of 'price gap'. Such cases may be dealt with on merits.

26 It is felt that the introduction of the proposed measures will be of considerable assistance to exporters—specially the second line exporters—who, at the moment, find considerable difficulty in getting the requisite export credit.

27 We have referred in para 13 to the hesitation of banks to provide credit for exports to some of the new markets like the East European countries, Middle-East and South-East Asia on account of the political and economic insecurity in certain countries and the fear of 'non-acceptance' of goods by the overseas buyers. As we have observed earlier, India will have to cultivate these rising markets, notwithstanding the initial risks. We feel that if ERIC's export risks insurance covers and its 'non-acceptance' policy are more widely used, the banks will have at their disposal a useful collateral; and this should enable them to liberalize their lending policies in respect of this area of their activity.

28 We should also like to draw attention to the recent scheme of Government for aiding the small exporters who cannot get discounting facilities for want of sufficient status. It is known as the 'EASI' (Export Aid to Small Industries) Scheme. It envisages assistance to the manufacturers of consumer and semi-consumer goods, in respect of quality, pricing, marketing, credit facilities, shipping and insurance. The scheme is operated by the S.T.C.; and the selection of the unit is made in consultation with the representatives of the local Small Industries Service Institutes and the State Directors of Industries. Under the scheme, the manufacturer receives payment to the extent of 95 per cent of the invoice value of goods, immediately after the goods have been shipped and the shipping documents delivered; the balance of 5 per cent is paid on receipt of the foreign buyer's remittance. When the scheme gathers momentum, it will offer a substantial help to the small exporter.

Medium and Long-term Credit

29 We then come to the question of medium- and long-term credit. This problem has not yet assumed any large dimensions in India. But, judging from the trends of industrial production in India and the enquiries received by Indian merchants from overseas buyers for supply of capital and quasi-capital goods, it seems to us that the problem will arise in the near future. The recent report of the delegation of Engineering Export Promotion Council to Latin American countries indicates considerable export possibilities

for our products. We have also before us the report of the Indian Delegation which visited Indonesia in July 1962 to examine the possibility of industrial collaboration between the manufacturers of engineering equipment in India and entrepreneurs in Indonesia for establishing new industrial enterprises in that country. Their discussion related to setting up of industrial units for the manufacture of cement, small-scale paper plants, repair workshops for sugar mills and other machinery. They also refer to the manufacture of diesel engines and other products in Indonesia as well as to the possibilities of supply from India of machine tools and diesel generating sets to meet the immediate requirements for the maintenance of their workshops and other industries. Then there is the report of the Team of the Reserve Bank of India which visited some countries in South-East Asia and Africa. Several countries in these areas have embarked on plans of economic development based on indigenous resources; and the Team envisages growing opportunities for joint ventures between Indian industrialists and entrepreneurs in those countries. The Team suggests that India should be in a position to cater to the demand of the neighbouring countries for various types of capital goods and offer technical know-how in many fields. Similarly, we were informed by the Development Council for Electrical Industries that they expect exports of various items of the value of about Rs. 100 lakhs in the next two years. We were also told by a leading industrialist that he hoped to supply sugar and cement machinery to neighbouring countries. In this connection he made an interesting suggestion of a triangular arrangement under which the foreign collaborators with the Indian firms may supply the components, which are now being imported in India, direct to the receiving country; the remaining machinery will be supplied by the Indian firm, the assembly of the plant taking place in the receiving country. This will alleviate the burden of finding foreign exchange for import of components.

30 It seems to us that as the pace of industrial development gathers momentum and internal demand is met, we may be in a position to generate a sizeable exportable surplus in some of the durable consumer and capital goods. Indeed, in recent months some Indian firms have been contracting to lay transmission lines, build factories, supply industrial equipment as well as durable consumer goods. All these enterprises will require sizeable credit facilities as Indian exporters will, necessarily, have to offer credit terms in line with their competitors. This aspect has been emphasised by all the reports referred to above. We were informed that overseas firms are offering engineering goods like sewing machines on hire-purchase credit of 24 months. Indian banks may not be able to permit credits of such duration to our manufacturers, for extension of such credit would involve a higher ratio between the debt and sales of the borrowing concern—*i.e.* a slower turnover which the banks may not usually allow. Further, in this category of goods, the banks would demand a margin, depending not only on the credit-worthiness of exporters but also the vendibility of the commodity. On the other hand, India's competitors have been quite active in this field. Certain European countries as well as U.S.A., Canada and Japan are reported to be giving long-term credit up to 10 and even 15 years for capital goods at rates of interest which are highly competitive. If India does not get ready to meet these credit needs, some valuable opportunities may be lost; and it may be difficult for the Indian export trade to rise to the desired level. Of

course, we should not under-estimate the risks flowing from the extension of term credit. The export earnings, over the years, need to be regularly received; and proper guarantees will have to be obtained to ensure amortisation of capital and payment of interest.

Performance Guarantees

31 Connected with the problem of medium- and long-term export credit is the question of providing suitable performance guarantees. The guarantees are of two types :

(i) performance of contracts regarding the delivery of plant and equipment on due dates, and ;

(ii) ensuring the quality and performance of the capital goods and services supplied.

32 Banks do not readily provide such guarantees; and wherever they have provided such guarantees—the cases have been few—the same have been limited to about 10 per cent of the value of the contract for about a year, so far as (i) is concerned.

33 As regards (ii), the customers withhold about 10 per cent of the value for a period of one year or more. It is understood that one or two General Insurance Companies in India do provide such performance guarantees, based on the merits of each case. It seems to us that some arrangement needs to be made to enable the insurance companies to go into this business and provide suitable guarantees.

Import-Export Stabilisation Fund

34 The Indian manufacturer-exporters have been experiencing difficulty in obtaining adequate supplies of raw materials to achieve full utilisation of their industrial capacity. For this purpose, the Ministry of Commerce and Industry has devised the method of "import entitlement", based on export performance. We have already referred to the time lag that occurs between the date of export and that of the realization of the import entitlement. If supplies of raw materials needed by the export industries are made dependent on actual exports or even firm orders a time lag is inevitable, though perhaps the period could be abridged. A plentiful supply of raw materials is an essential pre-requisite of a dynamic export industry. The Mudaliar Committee which gave considerable thought to this question have made some pertinent observations :

"If an immediate improvement is to be secured in the level of our exports, it is highly important that the existing export-oriented industries should be assured prompt and adequate supplies of essential raw materials. Equally necessary it is that these raw materials become available to our exporters at international prices so that they do not suffer from a price disadvantage in relation to their competitors abroad. On balance, India would stand to gain by under-writing in full the foreign exchange required for manufacturing goods for export. The production costs would thus be reduced; and it may well be that much of the differential that exists in some industries can be overcome merely by this provision."

35 In this connection they recommend the setting up of an Import-Export Stabilisation Fund through which imports of essential commodities could be financed on a revolving basis. They state :

> *"It may also be possible to finance the import of these additional raw materials through the media of a revolving fund which may be specially created for the purpose. There is reason to believe that groups of international banks may be agreeable to provide credits for import of raw materials to be used by approved exporters, who can be relied upon to fulfil undertakings on exports. It would be imperative to ensure that the foreign exchange so lent would be translated into export earnings to form the basis of what may be termed as the 'Import-Export Stabilisation Fund' which would be used to enhance the import of raw materials for the export industry. The arrangement would imply the matching of additional import credits with export performance so as to augment both sides of the equation and to improve India's balance of payments in the process.*
>
> *It will be necessary to have an Agency which will have all the authority of the Government to ensure high priority to these activities, but will also carry the conviction abroad that the funds available for this purpose would not be diverted to domestic production."*

36 We understand the Mudaliar Committee had informedly sounded a few international banks on the possibility of creating a revolving 'Import-Export Stabilisation Fund' and their reaction seems to have been reassuring. The Department of International Trade and ourselves have also had discussions with the Indian and the exchange banks, and have elicited the views of the Reserve Bank. It was felt that the proposed revolving arrangement will be an important measure of export promotion and be of general benefit to the economy. It will augment the supply of essential raw materials, help utilise idle capacity, raise industrial production, yield, in a measure, economies of scale, and make available increased supplies for the export market at more favourable terms. The bankers also did not envisage any serious difficulty in bringing about the arrangement.

37 There seemed to be, however, some divergence of views as to whether the operation should be entrusted variously to the 'dealers in foreign exchange' or be handled through a centralized agency. The banks are, naturally, in favour of the operation being entrusted to them. In fact, the State Bank of India has recently introduced a small and purely experimental scheme whereby, against the bank's guarantee a company may get a loan in a foreign currency for importing raw materials on the understanding that repayment will be made out of the proceeds of the export of the finished product.

38 The problem has many facets; lines of foreign exchange credit have to be secured; the parties, to whom the foreign exchange allocations have to be made under the scheme, have to be selected; the raw materials to be imported, and in respect of which the exchange is to be released, have to be determined; the criteria for identifying exports emanating from the imported raw materials in question have to be evolved. The export performance of the units receiving the raw materials under the scheme has to be continually watched; and it has to be ensured that the raw materials so imported are

translated into export earnings, and the exchange obligations are duly discharged.

39 For the success of the operation full co-operation of the Indian and exchange banks would be essential. But they would not know what raw materials would be allowed to be imported within the meaning of the Import Control Regulations and in respect of which exchange is to be released; and their recommendations, both in regard to the parties as well as the raw materials to be imported, would not be binding on the Development Wing or the Chief Controller of Imports. The entire operation—the selection of the parties/raw materials to be imported, the release of foreign exchange, the decision to issue an import licence and to plough back the export earnings into the revolving pool—is one compact problem. And it seems to us that it can best be handled through a central or co-ordinating agency which should have, as indeed was suggested by the Mudaliar Committee, "all the authority of the Government to ensure high priority to these activities"*. But as the banks will be the main springs of foreign exchange, it will be necessary to keep their interest alive and to give them, on the one hand, import-export business commensurate with their contribution of foreign exchange to the general pool and, on the other, some say in the conduct of the co-ordinating agency's business.

Government-to-Government Credit

40 Several developing countries are much in the same situation as India has been in the recent past. They require massive foreign exchange assistance to finance the purchase of capital goods essentially required for their development.

41 India herself has been, and continues to be, a recipient and beneficiary of international credits; and these have had a considerable effect upon the course of her economic development. She is vitally interested in the economic progress of the developing countries. It seems to us that if their economic growth is to be assisted, and intra-regional trade is to be fostered, it will be necessary to make arrangements to enable these countries to buy their requirements of capital equipment and other durable goods on credit terms in India.

42 Although no Government-to-Government credits have so far been granted to any appreciable extent, the recent memorandum of the delegation to Indonesia confirms our view that some of the developing countries are likely to ask for Government credits for the supply of Indian goods and services.

43 As already stated, provision already exists for individual suppliers of capital goods to grant medium-term credit to foreign buyers by obtaining loans from commercial banks which, in turn, can replenish their resources through the Refinance Corporation whose charter has been revised for this purpose. The State Bank of India Act has also been amended to enable the banks to extend medium-term credit for export of capital goods. However, the provision of credit on Government-to-Government basis, or through a Governmental institution, has the advantage of leaving the foreign buyer

Vide the Import & Export Policy Committee's Report, p. 28

free to choose his Indian supplier; this makes the credit arrangement more attractive and flexible from the business point of view. For countries in balance of payments difficulties and requiring capital goods from abroad, the availability of credit often decides the source of supply. This explains the growing importance of the Export-Import banks of U.S.A., Japan, West Germany and other capital goods exporting countries, and also accounts for the fact that even developing countries like Mexico have found it necessary to establish an Export-Import bank of their own. When Government decides to grant such credit under its techno-economic co-operation agreements with other developing countries, it may be an advantage to have an agency other than the Government itself to handle the procedural and administrative matters relating to disbursement and recovery of credits.

44 These, in brief, are some of the tasks, for which a separate arrangement needs to be made. We shall deal with this question in Chapter Four.

Chapter Three

COST OF CREDIT

We have been specially asked to consider the policy on concessional rates of interest and discount chargeable to exporters by the lending institutions in the country. During our investigations, the representatives of the export trade have stressed that the rate of interest charged by banks on their pre-shipment as well as post-shipment advances should be reduced. We have given considerable thought to this question and give our views in the following paragraphs :

2 Banks, as financial intermediaries, play a crucial role in the economy. The rates which they offer on deposits should be such as would mobilise, to the maximum extent, the savings of the community. On the other hand, the rates which they charge for their advances should be so designed as to bring about the most fruitful distribution of their loans to the productive sectors of the economy. It is the margin between the banks' borrowing and lending rates which is the source of their gross profit. The quantum of gross profit should be such as would enable the banks not only to provide for the costs of their operations and a reasonable return for their shareholders but also to make adequate appropriations to reserves.

3 The structure of interest rates of banks constitutes a delicate mechanism which is not to be normally disturbed, unless there are overriding national considerations. The Reserve Bank can operate its credit policy on a selective basis so as to ensure, through a system of preferential rates, diversion of credit to certain strategic sectors. It is on this basis that, for instance, preferential treatment is accorded to loans to agriculture through the co-operative system and the scheduled bank loans to small-scale industries. The promotion of India's export trade is no less important than the development of our agriculture or industry; and its importance to the national economy can scarcely be over-emphasized. Indeed, so great is the store placed upon export trade in the advanced countries that aid in diverse ways is given to foster its growth; and, among them, preferential rate of interest is not the least important. The table at the next page gives the cost of finance in per cent per annum in some of the important exporting countries :

Name of the Country	(Short Term) Cost	Margin below Domestic Credit	(Medium Term) Cost	Margin below Domestic Credit	(Long Term) Cost	Margin below Domestic Credit
1	2	3	4	5	6	7
France	4¼*	½	5	½ to 1	6½*	½ to 1
W. Germany ..	5 to 6½	Not available	6 to 8½	Not available	8	**
Italy	4¼ to 4½*	2¾	5½ to 6*	1½	5½ to 6*	½ to 1
Japan	4·75 to 5·48†	About 3%	4½ to 6½‡	About 4%	4½ to 6½‡	About 4%
U.S.A.	3 to 3·37§	—	5¾‡	—	5¾‡	*
U.K.	5—5¾	—	5½	1½	6½	1 to 1½
India	6½ to 9 ‖ 5½—6@	½—1	6½ to 9 @@	—	6½ to 9 @@	—

*Indicates presence of special official facilities.

**Indicates limited official facilities at 6 per cent for export for "development" purposes.

†Consequent on the reduction in bank rate from 6·5 percent to 6·21% with effect from March 20, 1963, Commercial banks' discount rates on export bills have been correspondingly reduced.

‡Eximbank rates

§Prime bankers' acceptance rates.

@Minimum Rates for sterling and rupee bills, respectively.

@ @As medium term credit plays a small part in our export trade, there is no regular rate; but this information has been obtained from the representatives of trade.

‖ Information obtained from the representatives of the trade.

Source : Information on foreign countries is taken from (*i*) the London Economist, January 12, 1963, (*ii*) March-April 1962 issue of Industrial Philippines, Manila, pages 12 to 16, (*iii*) Bank of Tokyo Weekly Review, (*iv*) Monthly Report of the Deutche Bundes Bank, December 1962, (*v*) Business International, November 16, 1962.

It is on the analogy of the special rates given to agriculture and the small-scale industries and the practices followed in other countries that it is suggested that export credit should be given preferential treatment by the Reserve Bank, consistent with the requirement of its monetary and credit policy. It is against this general background that the question of rates of interest to be charged by banks on export credit has been considered.

4 It is understood from the representatives of the trade that bank finance can be obtained by them at 6½ per cent to 9 per cent and to this is to be added, in several cases, the premium payable on ERIC's policies. Exporters have urged that the cost of short-term credit should not exceed 4 per cent to 5 per cent as they have to face keen competition in world markets; and such rates, they argue, will be in line with the interest rates charged in the industrially advanced countries.

5 The earlier study group which had examined this issue referred to the hardening tendency of interest rates in India and expressed the view that it would be desirable to minimise the impact of any further rise in interest rates charged to the exporters. They, therefore, recommended that the Reserve Bank might consider the possibility of exempting export credits from the operation of its credit control measures, selective and general, in so far as they affect the volume and cost of bank credit.

6 The recent amendments in the Reserve Bank Act, 1934, consequent on the recommendations of the earlier Study Group have resulted in the adoption of a simple procedure by the Bank in lending against export bills and in ensuring the availability of Reserve Bank credit for an extended period of time. Nevertheless, the incentive to banks to borrow against export bills was considerably affected by the operation of the 'tier' system of lending rates charged by the Reserve Bank on its loans and advances to scheduled banks. We have had discussions with the Reserve Bank on this point and are gratified to note that credit against export bills is now kept outside the purview of its system of slab rates so that the banks, in their turn, can pass on the benefit to exporters to enable them to meet effectively international 'non-price' competition.

Pre-shipment Rates

7 During our inquiry we felt that the Reserve Bank should examine the structure of rates charged by banks on export bills. We are inclined to think that the rates charged by banks for demand or sight bills are reasonable and in accordance with international practice. Further, as these bills are realised within a few days of their purchase, the exporter's interest cost on such bills would be a negligible proportion of his total costs. As regards the discount rates, which form an element in the usance bill rates charged by banks, we have discussed the position with the representatives of Indian and Exchange Banks' Association as well as the Reserve Bank of India. The discount element of the sterling usance bill should have a basic relationship with the Bank Rate in India. We are, therefore, of the view that the Reserve Bank of India may fix a ceiling in respect of the discount element of the rupee, sterling and dollar usance bills at such levels as are competitive with similar rates abroad. The ceiling rates so fixed by the Reserve Bank should continue to apply, notwithstanding any rise in the structure of interest rates in India. Whenever the discount rates in the U.K. and in other major countries fall below the base level with reference to which the discount rates are fixed by the Reserve Bank on foreign currency bills, the ceiling should be so modified as to minimise or eliminate the disadvantages, if any, to the Indian exporters.

8 The Reserve Bank has recently introduced an 'Export Bills Credit Scheme'. Advances under the scheme are made available to banks against their promissory notes repayable on demand and upon their declarations of holdings of eligible usance export bills drawn in foreign currencies or Indian rupees and purchased, negotiated or discounted by them. The cost of credit for exports is a factor of some significance and the Reserve Bank has recognized that it should be both reasonable and stable. Towards this end, it has been decided to grant to the banks the facility of an additional quota for borrowing from the Reserve Bank at the Bank rate in respect of their holdings of eligible usance export bills drawn in Indian rupees. This certainly is a step in the right direction; but even so the Indian short-term rate of interest will be higher than the rate charged in some of the important countries as will be seen from the table at page 24 above. It is, therefore, proposed that on the analogy of its preferential rates of advances for agriculture and small-scale industries, the Reserve Bank may consider the feasibility of making available short-term pre-shipment export finance to the banks at, say, $1\frac{1}{2}$ per cent below its Bank Rate. If the banks were to charge their clients up to $1\frac{1}{2}$ per cent, it would follow that the Indian exporters would

be in a position to secure their credit lines at about 4½ per cent, and be at no disadvantage in relation to their competitors abroad.

9 It has sometimes been argued that as the goods for export are produced on the same running line as the goods for the domestic market, and as the borrowings are predominantly in the form of over-draft or cash credit arrangements with outstanding balances varying considerably from day to day, it may not be easy to indentify the exact measure of credit that goes to produce specifically the goods for the export market. There may be an element of truth in this statement; but it is not necessary to be too meticulous in a matter like this. This is a problem by no means peculiar to India. Other countries have evolved suitable practices for differential rates; and it should not be beyond the ingenuity of the Indian banking system to work out a suitable drill.

Post-shipment Rates

10 A similar policy could be followed in respect of post-shipment export credits, namely, that the Reserve Bank may advance the requisite sums to the lending banks at, say, 1½ per cent below its Bank Rate. The banks, in their turn, would add to this rate up to 1½ per cent on all post-shipment borrowings required for export purposes. The ascertainment of the amount which would qualify for the preferential rates of interest would not present the same difficulties as pre-shipment export credit. The amount would be determined by reference to the invoice value of goods, duly supported by various documents such as bills of lading, marine insurance etc.

11 A question might arise as to whether the preferential rates of interest should be given on all exports, or whether they should be limited to any specified commodities. One's first reaction would be to restrict the benefits of the preferential rates to the non-traditional items; but a review of the trends of our export trade would suggest that the performance of our traditional items over the past few years has been uneven and shows signs of weakness*. And although, overall, India's exports in 1962-63 have risen to a high of Rs. 694 crore,** they are still some Rs. 20 crore behind the target. It is, therefore, obvious that special efforts will have to be made, all along the line, to support our exports. Having regard to all circumstances we are of the view that preferential rates should be applicable to all the non-traditional items and such other items as government finds to be deserving of assistance in this form.

Medium-term Export Finance

12 As already stated, the charter of the Refinance Corporation has been amended to refinance the banks in respect of export projects up to Rs. 50 lakhs in a single case. The Refinance Corporation has decided to make available to the banks its funds at 5 per cent to which the banks will add, we believe, about 1½ per cent as their own margin. Thus the lending rate of the banks would become 6½ per cent which, in our judgment, is still on the high side. We suggest that the Refinance Corporation should so regulate its rate that the funds should become available to Indian exporters at not more than 6 per cent.

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*See Appendix D.

**The figures are provisional—*vide* Press Note issued by the Department of Commercial Intelligence and Statistics, on April 20, 1963.

CHAPTER FOUR

INSTITUTIONAL ARRANGEMENTS

One of our terms of reference is to enquire (a) whether it is necessary to set up an Export Finance Corporation or an Export Credit and Guarantee Corporation; and (b) if the answer is in the affirmative, to suggest the steps necessary to achieve this object. In this context we have studied the organisation and methods of operation of export financing agencies in several countries and have found that they have their own specialised institutions to cater to the short-, medium- and long-term requirements of their export trade. We have given a description of some of these institutions in Appendix 'A'. We feel that if Indian exporters are to succeed in the world market, they too should have the benefit of similar facilities.

2 Following a recommendation of the Study Group on Credit Facilities for Exporters, the Refinance Corporation has decided to refinance export credits up to Rs. 50 lakhs in any single transaction and for a period of 5 years. We suggest that further efforts should be made to enlarge the facilities available from the Refinance Corporation in order that the resources of that body may be utilised to the extent possible for promotion of exports.

3 Export finance is a new and difficult field and has to be viewed against the expanding horizon of our export trade. The programme of doubling India's exports from the present level of about Rs. 700 crores to Rs. 1,400 crores by the end of the Fourth Plan will call for an intensification of effort by the financial institutions engaged in this field; and it will be difficult to bring this about without a steady endeavour by a central institution to that end. New problems will arise; and new risks may have to be assumed, besides those initially identified and for which, in our view, special arrangements need to be made. It has been the experience of all specialised institutions like the Industrial Finance Corporation of India, the Export Risks Insurance Corporation, the State Trading Corporation and the Refinance Corporation for Industry that they are called upon to assume new functions in course of time; indeed, the fact that a specialised institution is available has often been an important factor in facilitating speedy decisions about the exercise of such functions.

4 Apart from the problems likely to arise in future, certain credit facilities for which the need is already established—such as assistance to small exporters, credit against incentive benefits, foreign exchange assistance for import of raw materials on a revolving basis, term credits to facilitate exports of capital goods, credits for exports to new markets or for certain export lines involving special risks—can be properly developed over a period of time only if steps are taken from the beginning to build up the necessary specialised knowledge and experience. This is essential, not only for the actual conduct of field operations which must be left largely to banks and other institutions under guarantees provided by Government, but also for the central supervision and coordination of such operations.

5 An export-oriented institution is universally recognised to be an essential adjunct of the export promotion machinery. Such institutions provide

credit facilities not only to domestic exporters but also to foreign importers and foreign Governments; and their activities in the latter field are often of considerable benefit, both directly and indirectly, to the export trade of the country. These benefits can best be secured through a specialised institution.

6 We have, therefore, come to the conclusion that a modest beginning should be made by setting up a new institution which may be called the 'Export Credit and Guarantee Corporation'. This institution should largely play a co-ordinating role and take up residuary functions, its main endeavour being to strengthen and supplement the activities of the existing institutions in the field of export finance. It should also help them to assume new functions for which they may be better fitted by virtue of their resources or facilities. Besides, as ERIC is performing certain functions which are in the nature of credit guarantees (*e.g.* its packing credit policies), we suggest that, in order to avoid any overlapping or duplication of effort, it should be merged in the new institution. There are precedents for combining the functions of providing export credit guarantees and export risk insurance in the hands of a single institution (*e.g.* Export-Import Bank of Washington, U.S.A., and the Export Credit Guarantee Department in Britain).

7 The Export Credit and Guarantee Corporation should have the following functions :

- (a) to administer the schemes of export risk insurance at present handled by the Export Risks Insurance Corporation,
- (b) to administer schemes of guarantees which may be approved from time to time with a view to remedying the various gaps in the system of export credit in the country;
- (c) to provide such supplementary credit facilities as are essential for promotion and development of exports; and
- (d) to perform such other functions as Government may assign to it from time to time in regard to export credit and guarantees.

8 Having regard to the nature of the guarantees to be provided by the Corporation and the other functions it may be called upon to perform, it seems to us desirable that the Corporation should be created by a statute and wholly owned, at least in the beginning, by Government. Its Board of Directors may, in addition to the representatives of the Ministries and the public institutions concerned, include individuals having experience of commerce, banking and industry.

9 The Corporation should have an authorised capital of Rs. 10 crores, of which Rs. 5 crores should be issued and paid-up.

10 We have not attempted to work out the details of the organisation of the new institution. These matters may be settled by Government in consultation with the Reserve Bank of India. The new institution should make a modest beginning and extend its activities as and when it gains the necessary experience and expertise. Care should be taken to keep the administrative expenses as low as possible in order that the Corporation's services to the export trade may be available at reasonable cost.

ACKNOWLEDGEMENTS

We wish to express our thanks to the many organizations, associations and individuals who gave us the benefit of their views. We wish to place on record our appreciation of the valuable assistance given by our Member-Secretary, Dr. Chablani, and the contribution he made to our deliberations. Our thanks are also due to Shri K. L. Mathur, Assistant Secretary, who has had to perform extremely arduous duties throughout our work.

New Delhi,
April 30, 1963.

Sd./- K. P. Mathrani

Sd./- B. N. Adarkar

Sd./- A. Baksi

Sd./- R. S. Bhatt

Sd./-K. N. R. Ramanujam

Sd./- K. S. Sundara Rajan

Sd./- S. P. Chablani

Summary of Conclusions And Recommendations

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SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

CHAPTER ONE

Introductory

IMPORTANCE OF EXPORT DRIVE

1 The task of raising India's exports to the targetted levels is urgent and difficult; it requires sustained and vigorous effort both from Government and the business community (paras 6-7).

2 Our commodities face acute competition in the world market; on the other hand, the pull of domestic demand and attractive prices at home hamper export effort (para 8).

THE NEW FACTOR OF EXPORT CREDIT

3 In recent years a new factor—credit buttressed by export risks insurance—has become an important instrument of export promotion. Export finance, however, is but one instrument in our armoury of export promotion. Liberal credit facilities, by themselves, will not be of much avail, if the costs of Indian goods remain high, prices uncompetitive and quality and deliveries uncertain (para 12).

4 We have endeavoured to take an overall, long-term view of the problem of export finance in the general framework of our export targets and exchange needs as well as the credit facilities and institutions obtaining in other countries with which Indian exporters will have to contend. The measures which we have proposed in the domain of export finance and credit insurance should be deemed as part and parcel of an integrated trade policy, designed to give the necessary stimulus to our exports in an effort to achieve the targets of our plans of development (para 12).

CHAPTER TWO

Supply of Credit

CHANGING PATTERN OF WORLD TRADE

5 Since the end of the last war, there have been significant changes in the character and composition of world trade. New methods have been employed to capture overseas markets; and international competition has become intense. For countries like India, the task of increasing export trade is rendered all the more difficult by import restrictions, tariff barriers and the formation of economic communities (paras 1-2).

IMPORTANCE OF CREDIT

6 The overseas buyer now dictates terms in regard to price, quality and dates of delivery; and, above all, insists, more than ever before, on credit terms. The difficult balance of payments position in many countries makes it imperative for importers to ask—and sometimes to hold out—for credits

of varying duration. Indeed in some countries the source of external finance and payment terms are often reckoned, by the import and exchange control authorities, nearly as important a deciding factor as price and quality, and official regulations have been aimed, for understandable reasons, at influencing payment terms (para 3).

7 Export credit—its supply and cost—has thus assumed a new significance in international trade. In consequence, the leading exporting countries of the world have had to develop their own systems and institutions of export finance with a view to fostering their external trade. It is against this background that an attempt has been made in this report to analyse the problem of supply and cost of credit, in its broad perspective, in the light of the country's needs. An export drive designed to attain, in the next seven to eight years, the targets of our Plans will require, *inter alia,* credit facilities over a wide range of our export trade (para 4).

The Problem of Short-term Finance

8 Essentially, the problem of export credit boils down to its : (a) availability and (b) cost.

Availability at Pre-shipment Stage

9 The question of availability of pre-shipment credit needs to be viewed from the standpoint of both the manufacturer-exporter as well as the trader engaged in export business. We feel that whereas the well established exporters are largely able to secure their credit requirements from the banks, the 'second line' borrowers have some special problems and difficulties in obtaining pre-shipment credit which tend to stifle their export effort. Several instances have been cited (para 12).

10 The experience of banks in the 'new' markets has not been altogether satisfactory; and they are somewhat hesitant to grant credit for exports to these areas. The problem is not merely of adequate security but of assessing the risk on the basis of information about the markets and overseas buyers. We feel that, first, representatives of exporters and Indian banks should be encouraged to go abroad to explore markets, establish connections with the banking institutions and importing agencies at the receiving end. Secondly, the machinery for providing continuous information regarding the pattern of trade, market conditions and business links for Indian exporters with local buyers should be strengthened. This will enable the Indian banks to liberalise their credit facilities to Indian exporters in respect of these new areas (para 13).

11 An important problem which faces a large number of exporters is the financing of the 'gap' between the domestic prices and the f.o.b. value of the exported goods. No doubt the various incentives compensate the exporter, to an extent, for the 'difference' in the two sets of prices. But the issue of incentive licences takes some time. Meanwhile, the commercial banks make their advances on the basis of the f.o.b. values. In consequence, if the f.o.b. values are lower than the domestic prices, say, by 25 per cent., the amount of credit which the exporters can get would be of the order of about 60–70 per cent in terms of the domestic prices. When credit is pro-

vided subject to such a large margin, the exporter finds it difficult to finance the balance of 40 per cent. It would greatly enhance the effectiveness of the scheme of incentives, if some arrangement could be devised whereby the exporters are able to obtain credit, as far as practicable, on the basis of domestic prices, with due regard to the schemes of incentives and not merely on the basis of the f.o.b. value of the exported goods (paras 14-15).

Post-shipment Credit

12 Post-shipment credit may take the form of either 'negotiation' of export bills (demand and usance) or 'acceptance' of export bills for collection. According to an estimate of the Reserve Bank, the proportion of export bills for 'collection' was 19.8 per cent in 1961. The ratio is rather high, considering that from the viewpoint of banks' earnings, as well as the availability of funds to exporters, 'negotiation' of bills should be preferable to their 'collection'. It is understood that about 71 per cent of the total volume of bills accepted by them for 'collection' in 1961 was from the big exporters (*i.e.* exporter with an annual export turnover of Rs. 10 lakhs and more). As the bulk of the exporters whose bills are accepted for 'collection' are predominantly big exporters, it should be presumed that they would have been able to secure their advances from the banks; and it is predominantly the small and medium exporters who seem unable to get from banks their full requirements (paras 16—22).

Some Suggestions

13 Some suggestions are offered :

(*i*) *Pre-shipment Credit Facilities.* Banks, no doubt, give 'packing credit—*i.e.* finance at the pre-shipment stage for the purpose of purchasing; processing and packing goods for the export market. These facilities are normally available to persons of undoubted means and standing; but banks are somewhat hesitant in making such advances to the second line exporters. To meet the difficulty ERIC is now offering a cover—'the packing credit policy'—which is designed to assist exporters to secure credits somewhat above the line of the bank's normal rating of their capacity. ERIC indemnifies the lending institution against exporter's default to the extent of 50 per cent of the loss. Some banks have represented that if ERIC could raise the limit of its indemnity to them, it will be possible for them to liberalise their pre-shipment advances to exporters. As ERIC's experience in regard to its packing credit policy has been satisfactory, it seems to us that it could improve its guarantee to banks from the present limit of 50 per cent to $66\frac{2}{3}$ per cent, without incurring undue risk and with considerable advantage to exporters. If the proposed measure is taken, some of the difficulties of the exporters at the pre-shipment stage would be resolved.

We recommend that the Reserve Bank should obtain, periodically, information on packing credit advanced by banks and exercise its moral suasion with them to follow a more liberal policy [para 23(i)].

(*ii*) *Post-shipment Credit Facilities.* Whenever a bank grants packing credit facilities to exporters, it normally gives them also the facility to discount their bills. When, on the basis of the proposed improved guarantees to banks by ERIC, packing credit facilities become available in a more liberal measure, exporters will also be eligible for the discounting facilities, which, at the moment, are not readily available to them. Thus their problem of post-shipment export credit will be considerably facilitated, the more so if exporters partaking of the benefits of packing credit facilities also obtain ERIC's 'Shipments Risks Policies' which will give them complete protection against commercial and political risks arising from default or insolvency of the buyer or hazards of political upheavals, embargoes on exchange remittances, import restrictions etc. ERIC's policies are a useful collateral acceptable to banks; and if the knowledge about their benefits spreads more widely among exporters and full use is made of them, the banks will be more forthcoming in discounting the exporters' bills which are now accepted only for collection [para 23 (ii)].

(*iii*) *Facilities in respect of Exports on Consignments.* The main items sent on consignment are tea, mica iron and manganese ores, handicrafts and tobacco. These goods accounted for nearly 64 per cent of the total bills accepted by leading banks for 'collection' in 1961. As far as tea is concerned, the drawers, in the main, are the producers themselves; and so the need of export credit, by and large, does not arise. On the other hand, in the case of mica, mineral ores and handicrafts lack of standardization and wide price fluctuations, render the task of banks somewhat difficult. Banks can do little to help these exporters, unless steps are taken by Government to provide suitable pre-shipment inspection and grading facilities; and, if necessary, suitable guarantee to them against losses, based on pre-shipment inspection, grading and standardization of goods [para 23(iii)].

(*iv*) *Credit against the Price Gap.* Export credit is related to the value stated in the shipping documents. As the f.o.b. values are often lower than the domestic price of the goods in question, it follows that the credit which the exporter is thus able to get is considerably smaller than what he would get on the basis of hypothecation of his goods to finance his local sales. This shortfall in the bank advances available to him inhibits his export effort. To enable the banks to bring their lending to the exporter in line with their advances on the basis of domestic prices, it will be necessary to give an assurance to the banks to the effect that should the exporter default, the bank will be recompensed to an agreed extent. Accordingly, a scheme of guarantee should be evolved, in consultation with the Reserve Bank, on the basis of which banks would be covered against the loss in financing the difference between what they would normally lend on the basis of export bills and the domestic value of goods destined for the export market [para 23(iv)].

14 ERIC'S guarantee might cover up to 25 per cent of the f.o.b. value of the goods exported, the size of the price gap or the amount to be covered being left to the lending bank to determine [para 23 (iv)].

15 We recommend that the administration of the scheme be entrusted to ERIC. Should any loss occur, ERIC could have recourse to the Guarantee Scheme, much in the same way as do the Reserve Bank and the Refinance Corporation. Separate proforma account of these transactions should be maintained. When ERIC is merged in the new institution, this activity *inter alia* would be transferred to it.

16 ERIC's indemnity to the banks should be 75 per cent of the possible loss, and the amount should be reimbursed to the banks six months after the due date of payment.

17 We also recommend that the Reserve Bank should give additional borrowing facilities to the banks to enable them to finance transactions arising from the price gap mentioned above (para 24).

18 The scheme should ordinarily apply only in respect of such exporters as come within the purview of the export incentive schemes. This would make it possible to deal with defaulters departmentally (para 25).

19 If ERIC's export risks insurance covers and its 'non-acceptance' policy are more widely used, the banks will have at their disposal a useful collateral; and this should enable them to liberalize their lending policies in respect of exports to new markets (para 27).

Medium and Long-term Credit

20 The problem of medium- and long-term credit has not yet assumed any large dimensions in India. But our assessment is that the problem will arise in the near future (para 29).

21 Indian exporters will, necessarily, have to offer credit facilities in line with their competitors. If India does not get ready to meet these credit needs, some valuable opportunities may be lost. Of course, the risks flowing from the extension should not be under-estimated and proper safeguards should be undertaken (para 32).

Performance Guarantees

22 Connected with the problem of medium- and long-term export credit is the question of providing suitable performance guarantees for : (a) delivery of plant and equipment on due dates; and (b) the quality and performance of the capital goods and services supplied (para 31).

23 Banks do not readily provide such guarantees, though it is understood that one or two general insurance companies in India do undertake such work. Some arrangement needs to be made to enable the insurance companies to go into this business and provide suitable guarantees (paras 33-34).

Import-Export Stabilisation Fund

20 A plentiful supply of raw materials is an essential pre-requisite of a dynamic export industry. In this connection the Mudaliar Committee have recommended the creation of an 'Import-Export Stabilisation Fund' through which imports of essential commodities could be financed on a revolving basis. The matter has been discussed by us and the Department of International Trade with the Reserve Bank and the Associations of Indian and Exchange Banks. It is felt that the proposed revolving arrangement will be

an important measure of export promotion and be of general benefit to the economy (paras 34—36).

25 In view of the many facets of the task which have been explained at some length, it can best be handled through a central or co-ordinating agency which should have, as indeed was suggested by the Mudaliar Committee, "all the authority of the Government to ensure high priority to these activities". However, as the banks will be the main springs of foreign exchange, it will be necessary to keep their interest alive and to enlist their co-operation and support (paras 37—40).

GOVERNMENT-TO-GOVERNMENT CREDIT

26 Several developing countries are much in the same situation as India has been in the recent past. They require massive foreign exchange assistance to finance their development programmes. India is vitally interested in their economic progress. If their economic growth is to be assisted, and *intra*-regional trade is to be fostered, it will be necessary to make arrangements to enable these countries to buy their requirements on credit terms in India. The provision of credit on Government-to-Government basis, or through a governmental institution, has the advantage of leaving the foreign buyer free to choose his Indian suppliers; and this makes the credit arrangement more attractive and flexible from the business point of view. When Government decides to grant such credit, under its techno-economic co-operation agreements, to other developing countries, it may be an advantage to have an agency other than the Government itself to handle the procedural and administrative matters relating to disbursement and recovery of credits (paras 41—44).

CHAPTER THREE

Cost of Credit

27 The representatives of the export trade have stressed that as they have to meet keen competition in the world market the rates of interest charged by banks on their pre-shipment as well as post-shipment advances should be reduced and brought in line with the rates of interest current in the industrially advanced countries. The promotion of India's export trade is no less important than the development of our agriculture or small-scale industry. In advanced countries aid to exports is given in diverse ways; and among them, preferential rates of interest is not the least important (paras 1—4).

28 We have been in consultation with the Reserve Bank and are gratified to note that it has agreed, *inter alia,* to exclude export credits from the purview of its system of slab rates so that the banks, in their turn, can pass on the benefit to exporters to enable them to meet effectively international 'non-price' competition (paras 4—6).

PRE-SHIPMENT RATES

29 The Reserve Bank should examine the structure of rates charged by banks on export bills. We are inclined to think that the rates charged by banks for demand or sight bills are reasonable and in accordance with international practice. As regards the discount rates, which form an element in the usance bill rates charged by banks, we feel that the discount element of

the sterling usance bills should have a basic relationship with the Bank Rate in India. The Reserve Bank may, therefore, fix a ceiling in respect of the discount element of the rupee, sterling and dollar usance bills at such levels as are competitive with similar rates abroad. The ceiling rates so fixed by the Reserve Bank should continue to apply, notwithstanding any rise in the structure of interest rates in India; and whenever the discount rates in the U.K. and in other major countries fall below the base level with reference to which the discount rates are fixed by the Reserve Bank on foreign currency bills, the ceiling should be so modified as to minimise or eliminate the disadvantages, if any, to the Indian exporters (paras 7-8).

30 The Reserve Bank has recently introduced an 'Export Bill Credit Scheme' under which the banks will have the facility of an additional quota for borrowing from the Reserve Bank at the bank rate in respect of their holdings of eligible usance export bills drawn in Indian rupees. This is a step in the right direction; but even so the Indian short-term rate of interest will be higher than the rate charged in some of the important countries as will be seen from the table at page 24, Chapter Three. We recommend that on the analogy of its preferential rates of advances for agriculture and small-scale industries, the Reserve Bank may consider the feasibility of making available short-term pre-shipment export finance to the banks, say, 1½ per cent below its Bank Rate. If the banks were to charge their clients up to 1½ per cent it would follow that the Indian exporters would be in a position to secure their credit lines at about 4½ per cent, and be at no disadvantage in relation to their competitors abroad (para 8).

31 It might be argued that it may not be easy to identify the exact measure of credit that goes to produce specifically the goods for the export market. But this is a problem by no means peculiar to India; and it should be possible to evolve a suitable drill in this behalf.

Post-shipment Rates

32 A similar policy could be followed in respect of post-shipment export credits, namely that the Reserve Bank may advance the requisite sums to the lending banks at, say, 1½ per cent below its Bank Rate. The banks, in their turn, would add to this rate up to 1½ per cent on all post-shipment borrowings required for export purposes (para 9).

33 We have also considered the question whether the preferential rates of interest should be given on all exports or be limited to any specified commodities. Having regard to all circumstances, we are of the view that preferential rates should be applicable to all the non-traditional items and such other items as Government finds to be deserving of assistance in this form (para 11).

Medium-term Export Finance

34 The Refinance Corporation has decided to make available to the banks its funds at 5 per cent to which the banks will add about 1½ per cent as their own margin. Thus the lending rate of the banks would become 6½

per cent which is still on the high side. We suggest that the Refinance Corporation should so regulate its rate that the funds should become available to Indian exporters at not more than 6 per cent (para 12).

CHAPTER FOUR

Institutional Arrangements

35 We have studied the organisation and method of operation of export financing agencies in several countries and have found that they have their own specialised institutions to cater to the requirements of their export trade. If Indian exporters are to succeed in the world market, they too should have the benefit of similar facilities (para 1).

36 We suggest that further efforts should be made to enlarge the facilities available from the Refinance Corporation so that its resources may be utilised to the extent possible for promotion of exports (para 2).

37 Export finance is a new and difficult field and has to be viewed against the expanding horizon of our export trade. New problems will arise, and new risks may have to be assumed, besides those initially identified and for which special arrangements need to be made (para 3).

38 Apart from the problems likely to arise in future, certain credit facilities for which the need is already established—such as assistance to small exporters, credit against incentive benefits, foreign exchange assistance for import of raw materials on a revolving basis, term credits to facilitate exports of capital goods, credits for exports to new markets or for certain export lines involving special risks—can be properly developed over a period of time only if steps are taken from the beginning to build up the necessary specialised knowledge and expertise (para 4).

39 An export-oriented credit institution is universally recognised to be an essential adjunct of the export promotion machinery. We have, therefore, come to the conclusion that a modest beginning should be made by setting up a new institution which may be called the 'Export Credit and Guarantee Corporation'. This institution should largely play a co-ordinating role and take up residuary functions, its main endeavour being to strengthen and supplement the activities of the existing institutions in the field of export finance. Furthermore, as ERIC is performing certain functions which are in the nature of credit guarantees (*e.g.* its packing credit policies), we suggest that, in order to avoid any overlapping or duplication of effort, it should be merged in the new institution. There are precedents for combining the functions of providing export credit guarantees and export risk insurance in the hands of a single institution (*e.g.* Export-Import Bank of U.S.A. and the Export Credit Guarantee Department in Britain) (paras 5-6).

40 The Export Credit and Guarantee Corporation should have the following functions :

- (a) to administer the schemes of export risk insurance at present handled by the Export Risks Insurance Corporation;
- (b) to administer schemes of guarantees which may be approved from time to time with a view to remedying the various gaps in the system of export credit in the country;

(c) to provide such supplementary credit facilities as are essential for promotion and development of exports; and

(d) to perform such other functions as Government may assign to it from time to time in regard to export credit and guarantees (para 7).

41 The Corporation should be created by a statute and wholly owned, at least in the beginning, by Government. Its Board of Directors may, in addition to the representatives of the Ministries and the public institutions concerned, include individuals having experience of commerce, banking and industry. To start with, it should have an authorised capital of Rs. 10 crores, of which Rs. 5 crores should be issued and paid-up (paras 8-9).

Appendices

APPENDIX 'A'

CREDIT FACILITIES IN OTHER COUNTRIES

In view of the growing competition in the world market export credit—its supply and cost—has become an important element in international trade. Several leading exporting countries have set up specialized institutions to provide liberal credit facilities to their exporters at preferential rates of interest. The following is a brief description of the credit facilities obtaining in some of the industrially advanced countries:

Short-term Export Credit Facilities

2 The principal source of short-term credit for exports in foreign countries, as in India, is the commercial banking system, which rediscounts the export bills with the Central Bank. Short-term export credit provided by banks does not usually exceed six months, and the Central Bank does not generally rediscount or lend against export bills which mature after a period of 3 months.

3 In France, as in the U.K., banks finance exports either by granting overdrafts on current account or on the basis of discountable paper. The overdraft is subject to a stated limit and must be repaid at the end of an agreed term. It is a relatively expensive means of finance, since in addition to the agreed rate of interest, commission of 1/20 per cent per month must be paid on the maximum debit balance each month. This is quite apart from the usual charges on the turnover of the current account. From the banker's point of view also bill financing has several advantages. Not only is his undertaking precisely determined both as to the amount and the term of credit, but also he can rediscount it with the Bank of France in case of need. The notes or drafts are drawn initially for a period of three months, but they can be renewed for a further period of three months, subject to a maximum maturity of two years, in respect of short-term credits. In order to facilitate the mobilisation of such paper, the banker seeks the addition of the aval (endorsement) of the Banque Francaise du Commerce Exterieur, agreeing with it the extent to which they share the risks involved. If the banker has granted accommodation against his own acceptance, he may rediscount the paper with another banker and the latter, after endorsement, may rediscount it with the Bank of France, provided the period of maturity of the bill at the time of rediscount does not exceed three months and the bill carries the required number of good signatures.

4 Banks and other credit institutions in Western Germany grant three types of short-term credits, namely, credits on current account, acceptance credits and discount credits. These credits are granted normally for a period of three months, and not exceeding six months. As a rule, banks in Germany prefer to grant credits by discounting bills, rather than against current account, the reason being that the Central Bank purchases trade bills bearing three good signatures and having a maturity not exceeding ninety days. Acceptance credits serve chiefly to finance imports and exports, but these are available to German firms only to a limited extent now.

5 In Japan the practice of overdraft credit is negligible; but trade and bank acceptances are commonly employed in the field of foreign commerce. The most important types of credits are the discounting of negotiable commercial paper, and advances against single-name bills. Frequently, a second name is added to a bill as the personal guarantee of an officer of a company, or a loan may be guaranteed by another commercial bank or by a governmental financial institution.

6 Export financing comprises (a) export advances (finance before shipment) and (b) loans against export usance bills (finance after shipment). Funds for production, collection and processing of export goods are advanced by a bank prior to shipment on a comparatively low interest rate, while eligible bills satisfying certain conditions are rediscounted by the Bank of Japan. The Bank of Japan also makes advances, against export usance bills of less than 3 months satisfying certain requirements, to commercial banks which negotiated the bills.

7 In the U.K., three main groups of institutions provide short-term export finance. They are the commercial banks, the discount houses and the acceptance houses. The banks assist the exporters by providing overdraft facilities or by the discounting of bills or by both. For most commercial purposes, the bank overdraft is more convenient and is commonly used, though there are some directions particularly in import bills, in which bills of exchange are still used. The overdraft facilities provided by banks to manufacturers and traders help them to carry on their general business, including the manufacture and preparation of goods for export, so that it is not possible to separate that part of bank lending which relates to the export trade from that part which finances general business, including home sales.

8 There are twelve major discount houses in the U.K. and they provide finance for exports by discounting export bills (bank bills and trade bills), but their business in commercial bills has declined in importance. The discount houses discount more bills than they intend to hold, knowing that the banks and other institutions will be eager to buy them very soon. They buy and sell bills on behalf of their non-bank customers and earn commission from this service. The significance of the bills of exchange lies in the fact that they constitute a useful alternative to direct bank lending to the private sector. Their expansion during the credit squeeze showed that the discount houses must be regarded as one of the sources of short-term finance to which industrial and commercial borrowers turn, if they are prevented from borrowing from their banks*.

9 The acceptance houses assist the exporters in obtaining finance, by accepting the export bills on behalf of overseas buyers, for which they get commission ranging from 1¼ to 3 per cent from the importers. A bill of exchange accepted by a British bank or one of eighteen accepting houses is, if it has one other British name on it, 'eligible paper' at the Bank of England, and has, therefore, the highest degree of liquidity, shared only by Treasury bills and short-dated government bonds. The importance of these institutions may be judged from the fact that their acceptances form about 50

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*Report of the Committee on the Working of the Montetary System (U.K.), 1959, p. 59.

per cent of the Bank bills (i.e. bills eligible for rediscount or advance by the Bank of England). As the Radcliffe Committee says, "the volume of these acceptances has twofold significance for the liquidity of the economy; it facilitates the channelling of money into the hands of buyers of goods, and because of the special quality of these acceptances, it adds to the total of 'liquid assets' from which the London clearing banks and other joint stock banks draw the assets that form the base of bank credit"*.

10 Bank credit in the U.S.A. is customarily extended in the form of advances against promissory notes or discounting of bills of exchange (also called bankers' acceptances). The system of overdraft or cash credit does not prevail in the U.S.A. However, the American banks usually extend lines of credit to their valued clients, an arrangement by which they agree in advance, to lend up to a stipulated maximum if the borrowers' credit position remains substantially unchanged. Confirmed lines of credit are those confirmed to a customer in writing. The banker's acceptance is a readily marketable instrument by means of which a bank can extend its credit to customers. Banks in the U.S.A., financing international trade, issue letters of credit on behalf of traders abroad and confirm letters of credit issued by foreign banks; usually such accommodation is within lines of credit established for foreign banking correspondents. When these letters of credit call for time drafts, they result in the creation of dollar bankers' acceptances. The market for bankers' acceptances in New York consists of banks and dealers in bankers' acceptances who act mainly as intermediaries between buyers and sellers. Occasionally, U.S. business firms also enter the market, using idle funds to buy acceptances from dealers. The Federal Reserve Bank of New York buys these acceptances, provided the maturity of the bills does not exceed ninety days at the time of purchase, at its discount rate, for the account of foreign central banks and for its own account. The usual period for which bankers' acceptances are created is for 90 days, and a small volume of acceptances is drawn with a maturity exceeding 90 days. The cost of acceptance financing, as compared with the interest rate paid on direct loans by prime borrowers, has declined considerably since the early postwar years**.

11 Although Central Banks' financial assistance to exports is of a short-term nature, Central Banks in some countries, have been charging special rediscount rates for exports or allowing special rediscount quotas for export credit granted by the banks. In Belgium, the central bank for a number of years maintained preferential rates for certified export and import paper—rates that were tightened or eased, relative to the official discount rate, as balance of payments conditions warranted.

12 More recently in France, when the central bank increased its discount rate in April 1957, and again in August 1957, the rate for paper, arising from exports was left at its former level; moreover, such paper, as well as medium-term bills for equipment and construction financing, is exempt from the rediscount ceilings in effect for commercial banks. At present the Bank of France rediscounts domestic bills at 3.5 per cent, but it rediscounts export bills at 3.0 per cent.

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*Ibid, page 67.

**Federal Reserve Bulletin (U.S.A.), May 1955, p. 490.

13 The Bank of Japan also has been lending to banks against export bills at rates lower than the Bank Rate. It provides city banks with funds against bills for which the latter has financed exporters for the production, processing and collection of export goods. These bills are called export advance bills. In the case of exports with letters of credit, the Bank of Japan rediscounts export advance bills for terms of three months or less, while in other cases the Bank makes loans to banks on the security of export advance bills with terms of six months or less. As regards post-shipment finance, the Bank of Japan makes loans to foreign exchange banks on their holdings of export time bills of three months or less, guaranteed by irrevocable letters of credit or export credit insurance. The Bank Rate is 5.840 per cent, whereas the rediscount rate for export bills is 4.015 per cent and the rate for loans against export bills is 4.380 per cent. These bills are exempt from the "higher interest rates system" by which the Bank charges rates higher than the Bank Rate on loans to commercial banks, exceeding the prescribed line. This system is intended to curb excessive dependence of commercial banks on the Bank of Japan for funds.

14 In West Germany, export bills were excluded, until May 18, 1956, from the rediscount ceilings established for commercial banks; further until that date, they were rediscounted by the German central bank at the official discount rate of the country on which they had been drawn whenever that rate was below the West German rate. These facilities were withdrawn by the Central Bank, following the marked improvement in Germany's balance of payments and the reduction in interest rates in the countries.

15 In the U.K., finance for exports has been exempted from official restrictions imposed on bank lending, as part of the government's policy of export promotion. Further, throughout the post-war period, bank advances for the purposes of financing exports have been given priority in bank lending. In the 'little budget' of July 1961, for instance, the Chancellor of the Exchequer requested the banks to be particularly critical of lending related to personal consumption and for speculative purposes, "so that all possible room should be left for the finance vitally needed for exports". Again, when it was announced in May 1962 that a part of special deposits was to be released, the banks were asked to give priority to borrowing to finance exports and export industries, whilst continuing to exercise restraint in some other direction. The announcement in February 1961 by the Bank of England that it stood ready to refinance instalments in medium-term credits for exports, provided that the credits offered by banks for refinancing would mature within 18 months, enables the banks to count such credits as liquid assets. In this way, their liquidity ratio has improved and medium-term export credits are, in effect, excluded from restraints operating through the conventional liquidity ratio of 30 per cent.

Medium and Long-term Export Credit in Foreign Countries

16 Specialised credit institutions have been set up in a number of countries either by commercial banks themselves or by Government with or without the commercial bank's participation for the provision of medium-term export credit.

17 In Belgium, in addition to the banks, two semi-official organisations provide medium-term export credit. The Institut de Reesoomte et de Garantie (I.R.G.) and the (Societe Nationales de credit a 'L' Industries (S.N.C.I.) rediscount promissory notes and bills already discounted by banks, the former for periods up to two years and the latter for period from two years to five years. A financing pool of B.F. 4750 million was established in August 1959 for the financing of exports of capital goods on credit terms up to five years, if the credit risks are insured by the Office National de Ducroire (O.N.D.). The banking sector provided BF 2000 million and the public sector, the rest. In May 1962, the rediscount ceiling of the pool was raised by 25 per cent, to nearly BF 6000 million. Another pool amounting to BF 2000 million was set up by banks in March 1962 for financing exports with payment periods of over five years. The discount rate for the refinancing operations is periodically fixed by the member institutions.

18 In Canada, a new private institution known as the Export Finance Corporation of Canada, with an authorised capital of $50 million has recently been set up by eight chartered banks for financing exports of capital goods on credit terms up to a period of five years, provided the export risks are insured with the Export Credit Insurance Corporation.

19 In Finland, an Export Credit Corporation has been functioning since 1956, with a share capital of FM 200 million, 51 per cent of which is held by Government and the rest by commercial banks.

20 In France, two official agencies, viz., Banque Francaise du Commerce Exterieur and Credit National provide rediscounting facilities for medium-term export credits granted by banks. Credits for periods more than two years are usually granted by the exporters' bank and if they are guaranteed or endorsed by the Banque Francaise du Commerce Exterieur, the relevant bills may be rediscounted by the Credit National which in its turn, may pass them on to Bank of France. Compagnie Francaise de Assurance pour Le Commerce Exterieur (COFACE) and the Credit National are in agreement in limiting guarantees and financing to a maximum limit of 2 years for pre-financing and to five years for the whole period. COFACE guarantee is not required for granting credits of less than two years. For medium-term contracts (two to five years) the cost of credit at mid-1962 amounted to 4.575 per cent in the case of contracts with public authorities and 5.175 per cent in the case of contracts with private buyers. The cost in respect of contracts with private buyers is higher because the BFCE charges an additional 0.60 per cent risk commission.

21 In Germany, the major commercial banks have set up a specialised institution known as the Ausfuhrkredit A. G. (AKA) which rediscounts medium-term export paper for the commercial banks. The Deutsche Bundesbank. the Central Bank of Germany, rediscounts, within the line of rediscount accorded by AKA, bills and promissory notes which have been endorsed by AKA and which have been drawn for the purpose of financing export orders for medium or long-term period. AKA has two main financing limits, one provided by the commercial banks themselves (DM 700 million) and the other by the Central Bank (DM 300 million), known as the 'A' line and 'B' line respectively. The limit given by the Central Bank is being reduced

gradually. It is to be used primarily in favour of developing countries. Credits are now available from this institution for a total period not exceeding eight years (originally for four years only). The rate of interest at mid-1962 was 6 per cent for the 'A' line and 4½ per cent for the 'B' line. In addition, a commitment commission of ½ per cent for 'A' credit and 1 per cent for 'B' credit is charged, until the credit begins to be utilised.

22 In Italy, the two main export credit institutions are the Medio Credito and the Institut Molinliare Italiane, deriving their funds directly from the State. The former provides medium-term credits up to ten years, chiefly for exports of capital goods, the latter up to four years for capital goods and in certain cases also for consumer goods, although this limit may be exceeded in exceptional circumstances. Export risks insurance is compulsory. At mid-1962, rates charged to the exporters were 5½-6 per cent which are reported to have risen subsequently.

23 In Netherlands, commercial banks do not normally grant medium-term credits, but leave this business to specialised institutions of which N.V. Export-Financiering-Maatschappij (EFM) is the most important. It was constituted in 1951 by the major commercial banks with State participation. Credits are granted by it for export of capital goods up to eight to ten years, though normally the credit period does not exceed five years, the limit up to which export credit insurance is available. It is not an unconditional requirement that export credit risks should be insured with the official credit insurance organisation (N.C.M.) but E.F.M. almost always insist on it. It has limited rediscounting facilities with the Central Bank. Rates charged depend on individual cases and there are no preferential rates for export finance in the Netherlands.

24 In Norway, commercial banks have set up in March 1962 'Financing and Export Credit Institute' with a share capital of NKr 10 million for granting medium and long-term export credits up to 10 years. The Institute is empowered to raise additional capital by floating five to ten-year bonds with the banks' guarantee.

25 In Japan, short-term export credit is granted up to six months by the commercial banks, while credits over six months are given by the Export-Import Bank of Japan, a Governmental agency. For medium-term credits, exporters have access to this bank through the city banks, the credits being given either in the form of joint loans by the Exim bank and the city banks (after the latter have provided a 30 per cent share) or by way of rediscount of bills by the Bank. The rate of interest by the Bank is 4 per cent.

26 In Sweden, an 'Export Credit Company' was established in September 1962 for financing exports of capital goods (including ships), with a share capital of Skr 100 million, a half of which will be subscribed by the exchequer and the balance by commercial banks. The company may also raise funds on the market. Export credits granted by the company must not exceed 10 years. The cost of credit is fixed according to the market conditions. There are no preferential rates for export finance.

27 In the U.K., commercial banks provide credit for exports up to five years; and the Bank of England remains in readiness, since February 1961, to refinance such credits as have a residual maturity of not more than

eighteen months. A few months ago, the clearing banks in London and the Scottish banks have announced new facilities for the financing of exports of capital goods. The banks will finance all such transactions for periods not exceeding five years, whereas the insurance companies will provide credits beyond five years. The banks will lend at a fixed rate of $5\frac{1}{2}$ per cent; the insurance companies at $6\frac{1}{2}$ per cent. A few commercial and merchant banks in U.K. have also set up special credit institutions for the financing of export of capital goods to the Commonwealth and other countries.

28 In the U.S.A., medium-term export financing is mainly done by two institutions—the Export-Import Bank of Washington and the American Overseas Finance Company. The Export-Import bank is an agency of the State. It normally confines its attention to large-scale transactions, involving credits of over $10,000; and the duration of its lending ranges from one to five years. The American Overseas Finance Company, on the other hand, is a private institution. It was founded in 1955, under the aegis of the American Banks, but has subsequently been taken over by non-banking owners.

29 From the above paragraphs, it will be seen that there is a large variety of institutions in the world, engaged in short-, medium- and long-term financing of export trade. Each institution seeks to serve its clientele in the light of its peculiar needs; and, on the whole, these institutions have been a potent instrument of export promotion.

APPENDIX 'B'

List of Export Promotion Councils, Development Councils, Trade Organisations and Banks' Associations etc. who submitted memoranda to the Study Group on Export Finance :

1. Tobacco Export Promotion Council, Madras.
2. Spices Export Promotion Council, Madras.
3. Leather Export Promotion Council, Madras.
4. Engineering Export Promotion Council, Calcutta.
5. Chemicals & Allied Products Export Promotion Council, Calcutta.
6. Shellac Export Promotion Council, Calcutta.
7. Mica Export Promotion Council, Calcutta.
8. Leather and Leather Goods Development Council, Calcutta.
9. Calcutta Tea Traders' Association, Calcutta.
10. India Tea Association, Calcutta.
11. Calcutta Tea Merchants' Association, Calcutta-1.
12. Calcutta Jute Fabrics Shippers' Association, Calcutta-1.
13. Plastics Export Promotion Council, Bombay.
14. Development Council of Inorganic Chemical Industries, Bombay.
15. Development Council for Woollen Industry, Bombay.
16. Development Council for Machine Tools, Bombay.
17. The Bombay Exchange Banks' Association, Bombay.
18. The Indian Banks' Association, Bombay.
19. All India Exporters' Chamber, Bombay.
20. The All India Manufacturers' Organisation, Bombay-1.
21. The Precious Stone Importers' & Exporters' Association, Bombay-4.
22. Sports Goods Export Promotion Council, New Delhi-1.
23. Development Council for Light Electrical Industries, New Delhi.
24. Development Council for Food Processing Industries, New Delhi.
25. The Development Council for Heavy Electrical Industries, New Delhi.
26. All India Jewellers Association, New Delhi.
27. The Eastern Arts Corporation, New Delhi.
28. The State Trading Corporation of India Ltd., New Delhi.
29. Marine Products Export Promotion Council, Ernakulam.
30. Cashew Export Promotion Council, Ernakulam.
31. The Development Council for Pulp, Paper and Allied Industries, Dalmianagar.
32. The Jewellery Association, Jaipur.

APPENDIX 'C'

List of representatives of the Chambers of Commerce, Associations of Trade, Officials, Businessmen and Industrialists with whom the Study Group on Export Finance held discussions :

BOMBAY

1. Shri S. C. Vakil 2. Shri M. N. Savani 3. Shri C. C. Javeri 4. Shri Babubhai C. Shroff	All India Exporters Chamber
5. Shri Naranji L. Kara 6. Shri Babubhai Shroff 7. Shri S. Vishwanath 8. Shri M. N. Savani 9. Shri R. S. Mehra	Cotton Textiles Export Promotion Council
10. Shri D. N. Shroff 11. Shri S. M. Mehta 12. Shri Ramchand Khanna 13. Shri A. S. Kasliwal 14. Shri N. S. Kapadia 15. Shri O. P. Dhawan 16. Shri P. S. Krishnan	Silk & Rayon Textiles Export Promotion Council.
17. Shri D. S. Swaminathan	Plastics and Linoleum Export Promotion Council.
18. Shri J. H. Doshi 19. Shri B. D. Garware 20. Shri C. S. Shah	Development Council for Organic Chemical Industries.
21. Dr. H. R. Nanji	Development Council for Drugs and Pharmaceuticals.
22. Shri J. V. Pandit 23. Shri B. M. Colah	Development Council for Machine Tools
24. Dr. S. R. Lele 25. Shri V. R. Bhide 26. Shri H. C. Gupta 27. Shri R. N. Shenoy	Development Council for Glass & Ceramics
28. Shri N. M. Choksi 29. Shri N. K. Karanjia 30. Shri T. D. Kansara 31. Shri P. V. Gandhi 32. Shri S. G. Panandikar	Indian Banks Association
33. Shri A. D. R. Gaddis 34. Shri J. B. Stewart 35. Shri S. R. Mehta	Exchange Banks Association of India
36. Shri H. T. Parikh	Industrial Credit and Investment Corporation of India Ltd.
37. Shri Prabhu Mehta 38. Shri Morarji Vaidya 39. Shri N. D. Sahukar 40. Shri D. M. Desai 41. Shri Y. A. Fazalbhoy 42. Shri S. P. Subramanian	All India Manufacturers Organisation
43. Shri B. Venkatappiah 44. Shri N. A. Krishnan 45. Shri J. N. Saxena	State Bank of India, Bombay
46. Shri R. G. Saraiya	Honorary Export Promotion Adviser

47. Shri H. M. Patel	Ex-Finance Secretary, Government of India.
48. Shri P. C. Bhattacharyya 49. Shri M. V. Rangachari 50. Shri B. K. Madan 51. Shri D. N. Maluste 52. Shri K. C. Mittra	Reserve Bank of India

CALCUTTA

53. Shri H. Mackay Tallack 54. Shri A. R. Foster 55. Shri A. I. Murisen 56. Shri W. O. Bryden	Associated Chamber of Commerce of India.
57. Shri A. K. Bhattacharya 58. Shri M. L. Shroff 59. Shri Ravindra Nath 60. Shri R. D. Vidyarthi 61. Shri R. K. Singh 62. Shri R. D. Trivedi 63. Shri B. K. Raju	Engineering Goods Export Promotion Council.
64. Shri B. P. Mehra	Development Council for Light Electrical Industries.
65. Shri D. Rajgarhia 66. Shri R. G. Aggarwal 67. Shri O. P. Rajgarhia 68. Shri R. N. Mukherji 69. Shri B. Goenka	Mica Export Promotion Council
70. Shri Ajit Majoomdar	Shellac Export Promotion Council
71. Shri D. H. McKay 72. Shri S. F. T. B. Lever	Calcutta Exchange Banks Association
73. Dr. D. Bannerjee 74. Shri C. D. Thakkar 75. Shri M. G. Joshi	Chemical & Allied Products Export Promotion Council.
76. Shri Sanjoy Sen 77. Shri P. R. Roy	Leather & Leather Goods Development Council.
78. Shri A. S. Bham	Chairman, Tea Board, Calcutta.
79. Shri K. Ghosh 80. Shri J. H. Shah 81. Shri J. D. J. Rochford	The Calcutta Tea Traders' Association
82. Shri B. C. Biyani 83. Shri Rambhai A. Patel 84. Shri D. C. Bhansali 85. Shri U. K. Patel 86. Shri B. M. Rajgopal	The Calcutta Tea Merchants' Association
87. Shri P. Crombie 88. Shri S. P. Sinha	The Indian Tea Association
89. Shri Ajit Mazoomdar	Jute Commissioner, Calcutta
90. Shri C. L. Bajoria 91. Shri J. B. Jardine Peterson 92. Shri Gopaldas Tulsidas	The Indian Jute Mills Association
93. Shri B. K. Dutt	United Bank of India Ltd., Calcutta
94. Shri B. T. Thakur	2-B, Dover Road, Calcutta
95. Shri S. T. Sadasivan 96. Shri K. R. K. Iyengar	The United Commercial Bank Ltd.

NEW DELHI

97. Shri K. B. Mathur 98. Shri C. N. Pradhan 99. Shri A. C. Gupta	Development Council for Electrical Industries.
100. Shri T. R. Gupta 101. Shri V. Ramakrishna 102. Shri S. K. Sinha 103. Shri P. S. Bhatnagar	Dev. Council for Mech. Building Industry
104. Shri Sujir Ganesh Nayak	Cashew Export Promotion Council, Cochin.
105. Shri Bishambar Das Kapur	Development Council for Bicycles, Sewing Machines and Instruments.
106. Shri A. C. Khanna	Development Council for Food Processing Industries.
107. Shri Bhola Nath 108. Shri Sultan Singh Backhiwal	All India Jewellers Association, New Delhi
109. Shri K. K. Doshi 110. Shri P. M. Nanavati 111. Shri Bijoy Narain 112. Shri Radhey Lal	Precious Stones Importers and Exporters Association, Bombay.
113. Shri Rajrook Tank 114. Shri Harish Chandra Bader 115. Shri R. C. Poongalia	Jaipur Jewellers' Association, Jaipur
116. Janab T. Abdul Wahid Sahib 117. Janab M. S. Jamal Moideen Sahib	Leather Export Promotion Council, Madras
118. Shri N. Balakrishnan 119. Shri V. M. Meswani 120. Shri A. Natarajan 121. Shri T. N. Desai 122. Shri N. T. Gopala Iyengar	Development Council for Automobile Industries.
123. Shri Shriyans Prasad Jain 124. Shri Bharat Ram 125. Shri P. Chentsal Rao 126. Dr. Ram Gopal Agarwal	Federation of Indian Chambers of Commerce & Industry.
127. Shri R. L. Tuli	The Punjab National Bank, New Delhi.
128. Shri A. Kaul 129. Shri B. K. Kochar 130. Shri P. D. Commar 131. Shri R. K. Balbir	State Trading Corporation of India Ltd.

APPENDIX 'D'

INDIA'S EXPORTS OF SELECTED COMMODITIES*

(Rs. in lakhs)

Year	Tea	Cotton Textiles	Jute Goods
1951-52	93,97	52,10	269,93
1952-53	80,88	62,06	129,39
1953-54	102,19	63,63	113,92
1954-55	147,74	63,31	123,78
1955-56	109,14	56,63	118,28
1956-57	145,15	63,12	118,46
1957-58	113,65	58,27	110,33
1958-59	129,68	45,46	101,85
1959-60	129,50	64,26	111,61
1960-61	123,59	57,65	135,13
1961-62	122,40	48,40	140,49
1962-63 (April-Dec. 62)	99,23	34,57	125,76

* *Source* : For the period 1951-52 to 1959-60—The Journal of Industry and Trade, January, 1961, Pages 286-7.

For the period 1960-61 to 1962-63—Monthly Statistics of Foreign Trade of India—March 1961, March 1962 and December 1962.