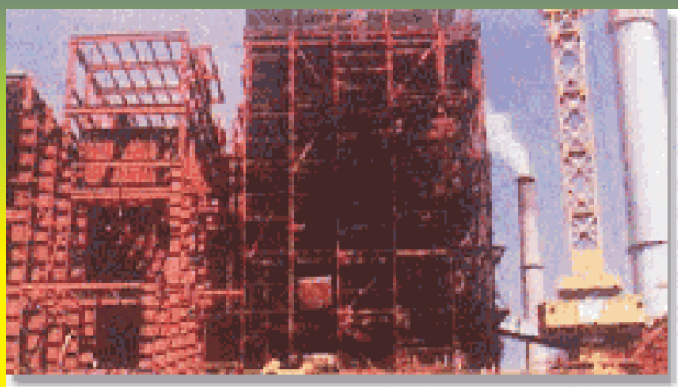




Report of Task Force on Project Exports



Submitted to
PRIME MINISTER'S OFFICE
GOVERNMENT OF INDIA

Chaired & Coordinated
By
G.S. DUTT IAS
Joint Secretary, Foreign Trade & Investment,
Department of Economic Affairs,
Ministry of Finance, Government of India

JANUARY 2003



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Published by



Export-Import Bank of India (Exim India)



Contents

PART A

1	PREFACE	11
2	EXECUTIVE SUMMARY	15
3	KEY RECOMMENDATIONS MATRIX	25
4	A PRESENTATION	32

PART B

5	TRENDS IN TURNKEY/OTHER PROJECT EXPORTS	52
5.1	<i>Background</i>	52
5.2	<i>Working Group for Project Exports</i>	54
5.3	<i>Global Project Opportunities - Multilateral Funded Projects Overseas/ Other Opportunities</i>	55
5.4	<i>Project Exports Scenario (1990-2000)</i>	57
5.4.1	<i>Activitywise Analysis</i>	57
5.4.1.1	<i>Construction Contracts</i>	58
5.4.1.2	<i>Consultancy Contracts</i>	58
5.4.1.3	<i>Turnkey Contracts</i>	59
5.4.1.4	<i>Supply Contracts</i>	59
5.4.2	<i>Regionwise Analysis</i>	59

5.4.3	<i>Destinationwise Analysis</i>	61
5.4.4	<i>Exporterwise Analysis</i>	62
5.4.5	<i>Performance of Indian Companies in Multilateral Funded Projects Overseas</i>	64
5.5	<i>Reasons for Loss of Bids</i>	67
5.6	<i>Constraints faced by Indian Project Exporters</i>	69
6	EXPORT CREDIT AGENCIES WORLDWIDE – SUPPORT FACILITIES	73
6.1	<i>Background</i>	73
6.2	<i>Comparison of select ECAs</i>	74
6.2.1	<i>Ownership & Capital Structure</i>	74
6.2.2	<i>Range of Products / Services</i>	77
6.2.3	<i>Government Support</i>	87
6.2.4	<i>Conclusions Drawn</i>	95
7	TRADE MISSIONS WORLDWIDE – PRACTICES	98
7.1	<i>Analyses of other Trade Missions</i>	98
7.1.1	<i>US Commercial Service</i>	98
7.1.2	<i>Japan External Trade Organisation</i>	101
7.1.3	<i>Australian Trade Commission</i>	103

7.1.4	<i>China Council for Promotion of International Trade</i>	105
7.1.5	<i>Malaysia External Trade Development Corporation</i>	106
7.1.6	<i>Korean Trade Investment Promotion Agency</i>	110
7.2	<i>Role of Indian Missions</i>	112
7.3	<i>Conclusions Drawn</i>	114
8	INDIAN CONSULTANCY EXPORTS SCENARIO	115
8.1	<i>Background</i>	115
8.2	<i>Snapshot of Consultancy Contracts</i>	115
8.3	<i>Inadequate Presence of Indian Consultants Overseas</i>	117
8.4	<i>Conclusions Drawn</i>	118
9	RECOMMENDATIONS	121
9.1	<i>Policy Related Recommendations</i>	121
9.1.1	<i>Constitution of High Level Standing Committee</i>	121
9.1.2	<i>Country Programming Missions</i>	123
9.1.3	<i>Harmonisation of Policies</i>	123
9.2	<i>Procedure Related Recommendations</i>	124
9.2.1	<i>Establishment of Coordinating Agency</i>	124
9.2.2	<i>Improving India's Performance in Projects Funded by Multilateral Funding Agencies</i>	132

Project Exports

9.3	<i>Institution Related Recommendations</i>	134
9.3.1	<i>Capacity Building of Indian Missions</i>	134
9.3.2	<i>Strengthening of Institutions</i>	136
9.3.2.1	<i>Strengthening of Exim India</i>	136
9.3.2.2	<i>Strengthening of ECGC</i>	140

PART C

ANNEXURES	142
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ANNEXURES

I.	<i>Members of the Task Force</i>	142
II.	<i>World Bank Lending - Sectors & Regions</i>	143
III.	<i>African Development Bank Lending - Sectors & Regions</i>	145
IV.	<i>Asian Development Bank Lending - Sectors & Regions</i>	146
V.	<i>Participation of Indian Companies in World Bank Funded Projects Overseas</i>	148
VI.	<i>Project Exports - Major Contracts Secured by Indian Companies</i>	152
VII.	<i>Trends in Project Financing: BOOT/ BOO Projects</i>	153
VIII.	<i>Export Credit Trends in India</i>	159

TABLES

5.1	<i>Delegation of Powers</i>	54
5.2	<i>Procurement Statistics for Foreign Procurement in World Bank Funded Projects</i>	65
5.3	<i>Comparison of World Bank Payments to India for Local and Foreign Procurement</i>	66
6.1	<i>Institutional Structure for Export Finance</i>	74
6.2	<i>Ownership & Capital Structure</i>	76
6.3	<i>Range of Products for Select ECAs</i>	78
6.4	<i>Comparison in Performances of Overseas Counterparts of ECGC</i>	86
6.5	<i>Interest Equalisation Support by Various ECAs</i>	87
6.6.	<i>Government Support being received by Select ECAs</i>	92
6.7	<i>Government Support being received by Select Overseas Counterpart Agencies of ECGC</i>	93

FIGURES

5.1	<i>Working Group for Project Exports</i>	55
5.2	<i>Activitywise Bids Submitted (Numberwise)</i>	57
5.3	<i>Activitywise Bids Submitted (Valuewise)</i>	58
5.4	<i>Regionwise Distribution of Bids (Numberwise)</i>	60
5.5	<i>Regionwise Distribution of Bids (Valuewise)</i>	60
5.6	<i>Country Analysis - Bids Submitted (Valuewise)</i>	61
5.7	<i>Exporters Analysis - Bids Submitted (Numberwise)</i>	62
5.8	<i>Exporters Analysis - Bids Submitted (Valuewise)</i>	63
5.9	<i>Countries & Exporters (Numberwise)</i>	63
7.1	<i>The Project Cycle and Business Opportunities</i>	113
8.1	<i>Regionwise Distribution - Consultancy Contracts Secured</i>	116
9.1	<i>Structure of the High Level Standing Committee</i>	122
9.2	<i>Recommended Institutional Coordination</i>	128
9.3	<i>Project Information Flow - Role of Coordinating Agency</i>	130
9.4	<i>Coordination between PFC & PEPC</i>	135

BOXES

5.1	<i>Sectors</i>	53
5.2	<i>Multilateral Funded Projects</i>	56
5.3	<i>Typical Benefits of Consortium Approach</i>	71
6.1	<i>Support Activities undertaken by ECAs</i>	79
6.2	<i>Additional Facilities offered by ECAs in Developing Countries</i>	80
6.3	<i>Facilities offered by Select ECAs</i>	83
6.4	<i>Interest Differential / Equalisation Support to Export Credit Agencies</i>	89
7.1	<i>Services offered by the US Commercial Service</i>	99
7.2	<i>Activities of JETRO</i>	101
7.3	<i>Major Activities of CCPIT</i>	105
7.4	<i>Main Activities of MATRADE</i>	107
7.5	<i>Services offered by KOTRA</i>	111
8.1	<i>Consultancy Firms – Consortia Approach</i>	119
9.1	<i>Supplies against Indian Equity/ Buy-back Leverage</i>	126

Acronyms

AfDB	African Development Bank
AsDB	Asian Development Bank
ASSOCHAM	The Associated Chambers of Commerce and Industry of India
AUSTRADE	Australian Trade Commission
BOO	Build Own Operate
BOOT	Build Own Operate Transfer
BOT	Build Own Transfer
CCPIT	China Council for Promotion of International Trade
CII	Confederation of Indian Industry
CIRR	Commercial Interest Reference Rate
ECA	Export Credit Agency
ECGC	Export Credit Guarantee Corporation of India Ltd.
EDF	Export Development Fund
EPC	Engineering Procurement Construction
EXIM INDIA	Export-Import Bank of India
FEMA	Foreign Exchange Management Act
FICCI	Federation of Indian Chambers of Commerce & Industry
GATS	General Agreement on Trade in Services
GOI	Government of India
GPCL	Global Procurement Consultants Limited
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development (World Bank)

ICO	Instituto de Credeto Official of Spain
IDA	International Development Association (World Bank)
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organisation
KEIC	Korea Export Insurance Corporation
KOTRA	Korean Trade Investment Promotion Agency
LAC	Latin America & the Caribbean
LOC	Line of Credit
MATRADE	Malaysia External Trade Development Corporation
MFA s	Multilateral Funding Agencies
MFPO	Multilateral Funded Projects Overseas
MOC	Ministry of Commerce & Industry
MOF	Ministry of Finance & Company Affairs
NEXI	Nippon Export and Investment Insurance, Japan
OCCI	Overseas Construction Council of India
PEPC	Project Export Promotion Council
PFC	Project Facilitation Cell
RBI	Reserve Bank of India
SINOSURE	China Export and Credit Insurance Corporation
SME s	Small & Medium Enterprises
WB	World Bank

Major policy initiatives have been instrumental in preparing India for a period of growth as also becoming a major player in an increasingly inter-dependent world economy. Indian companies have in the past successfully implemented projects in a variety of sectors and in diversified markets overseas. Indian companies have demonstrated capabilities to execute successfully a range of projects in challenging environments. Satisfactory performance in terms of cost effectiveness, technical expertise and timely delivery of quality products and services have earned the project exporters from India a fair degree of goodwill and standing. However, only a relatively small number of Indian project exporters are securing contracts, and that too in few overseas destinations. It is essential for Indian Project exporters to ensure that they respond to the discipline and rigour involved in identification of appropriate opportunities, advance planning and structuring of bids, effective implementation and building up of track records to help ensure quantum increase in project exports, and to more identified destinations.

Task Force Meetings

In a meeting held in June 2002, in the Prime Minister's Office (PMO) under the Chairmanship of Dr. Prodipto Ghosh, Additional Secretary to Prime Minister's Office, it was decided that a Task Force, under my Chairmanship, would be set up to address issues related to turnkey/ other project exports. The Task Force was constituted with representatives from:

- ❑ *Department of Economic Affairs, Ministry of Finance & Company Affairs*
- ❑ *Department of Commerce, Ministry of Commerce & Industry*
- ❑ *Department of Expenditure, Ministry of Finance & Company Affairs*
- ❑ *Department of Revenue, Ministry of Finance & Company Affairs*
- ❑ *Ministry of External Affairs*
- ❑ *Prime Minister's Office (PMO)*
- ❑ *Export-Import Bank Of India (Exim India)*
- ❑ *Export Credit Guarantee Corporation of India (ECGC)*
- ❑ *The Associated Chambers of Commerce & Industry of India (ASSOCHAM)*

- ❑ *Confederation of Indian Industry (CII)*
- ❑ *Federation of Indian Chambers of Commerce & Industry (FICCI)*

Exim India was designated as the Secretariat of the Task Force.

Meetings of the Task Force were held periodically in New Delhi in August, September and October 2002. Wide ranging discussions amongst Committee Members facilitated generation of inputs and development of position papers leading to formulation of policy, procedure and institution related recommendations. Meetings of the Task Force were also structured to enable direct interaction with select project exporters to seek their inputs/ feedback related to stepping up of project exports and mitigating/ resolving bottlenecks.

Terms Of Reference

The Task Force was mandated to submit recommendations aimed at attaining the level of ingenuity, flexibility, procedural simplicity and competitiveness achieved by competitor nations. The different aspects that have been sought to be addressed include:

(a) Issues particular to nature of the project

- *Government to Government projects*
- *Multilateral Funded Projects overseas*
- *Projects based on other institutional financing*
- *Others including Counter Trade, Joint Ventures, Deemed Exports*

(b) Common underlying issues

- *Project identification, intelligence collection and dissemination of information*
- *Positioning of consultants and participation in pre-feasibility studies*
- *Generation of acceptable references (including issues of consortium bidding)*

- *Timely and professional bid preparation and submission*
- *Identifying and addressing perceived shortcomings in Project Implementation performance of Indian Companies, as also similar issues related to other stakeholders.*
- *Issues related to coordination amongst all stakeholders and joint participation*

(c) Issues related to Finance

- *Competitive Credit and Insurance*
- *Flexibility in Financing/ Insurance arrangements and availability of broad array of instruments to accommodate alternative risk profiles, project size, duration, and variations like equity participation, project based guarantees.*

The Committee Members, in order to impart greater focus structured the terms of reference as follows:

- a. *To analyse the performance of India's Turnkey/ other Project exports during the last decade*
- b. *To take stock of the present situation of turnkey/ other project exports and review the progress of projects exports*
- c. *To draw conclusions from the Performance Analysis*
- d. *To identify problems faced by the Indian project exporters*
- e. *To identify factors that impede performance of Indian Project Exporters*
- f. *To identify potential areas for Turnkey/ other Project exports in terms of both composition and destination, and strategy for increased Exports.*
- g. *To suggest policy, procedural and institutional measures to facilitate significant growth in project exports.*
- h. *To make suggestions and recommendations to identify short-term, medium-term and long-term strategies for increasing project exports.*

As the Chairman of the Task Force, I would like to acknowledge and thank all organisations, associations and individuals who have assisted in this assignment. The recommendations in the Report are, hereby, submitted to the Prime Minister's Office for consideration of the Government.

G.S. DUTT IAS
*Joint Secretary,
Department of Economic Affairs,
Ministry of Finance
Chairman of the Task Force on Project Exports*

*New Delhi
January 2003*

2.

Executive Summary

The nature of Project Exports being undertaken, in a sense, reflects the technological maturity and industrial capabilities of a country. Exports of projects and services can be broadly categorized into (i) civil construction projects, (ii) turnkey projects, (iii) consultancy services, and (iv) supplies, primarily by way of capital goods and industrial manufactures.

Indian Project Exporters have executed a variety of projects in diverse markets overseas. Satisfactory performance, in terms of cost effectiveness, application of technical expertise and timely delivery of quality products and services have earned project exporters from India a fair degree of goodwill and standing.

A quantum increase in project exports can be achieved if constraints faced by Indian companies are addressed by :

- ☐ Increased institutional support, including a more pro-active role by Indian missions;
- ☐ availability of more competitive credit and insurance terms over extended periods;
- ☐ enhanced brand image of India as a Project Exporter;
- ☐ need for Indian consultants to have enhanced presence in thrust markets at early stages of the planning process;
- ☐ industry/ industry associations adopting innovative approaches;
- ☐ multi-pronged coordinated approach involving appropriate institutional support, and concerted efforts by industry focusing on specific projects/ markets

An analysis of the Indian projects exports scenario has been undertaken against the backdrop of the following:

- ☐ Project Opportunities
- ☐ Performance of Indian Project exports during the period 1990-2000
- ☐ Constraints faced by Indian Project Exporters
- ☐ Financing and insurance facilities offered by export credit agencies, worldwide
- ☐ Practices of trade missions, worldwide

Summary Of Recommendations

Policy, Procedure and Institution related recommendations of the Task Force seeking to enhance the enabling environment for achieving a quantum increase in project exports are outlined below. These sets of recommendations, may be implemented on short, medium and long-term basis which would correspond to six months, one year and two years respectively.

2.1 POLICY RELATED RECOMMENDATIONS

2.1.1 CONSTITUTION OF HIGH LEVEL STANDING COMMITTEE ON PROJECT EXPORTS

2.1.1.1 *A High Level Standing Committee chaired by Secretary, Ministry of Commerce and Industry with representatives from Ministry of Finance and Company Affairs (MOF), Ministry of Commerce and Industry (MOC), Ministry of External Affairs (MEA), Reserve Bank of India (RBI), Exim India and ECGC may be set up to address issues related to projects which need special attention. The Committee will also deal with wide ranging issues requiring high level intervention, including special dispensations and taxation, to ensure timely and adequate response so as to facilitate project exports. This High Powered Committee will comprise the following members:*

- ☐ *Secretary, Department of Commerce, Ministry of Commerce & Industry – Chairman*
- ☐ *Secretary, Department of Economic Affairs, Ministry of Finance or his nominee not below rank of the Joint Secretary, Ministry of Finance*
- ☐ *Secretary, Ministry of External Affairs or his nominee not below rank of the Joint Secretary, Ministry of External Affairs*
- ☐ *Representative from Reserve Bank of India not below the rank of Executive Director*
- ☐ *Managing Director and Chief Executive Officer of Exim India*
- ☐ *Chairman & Managing Director of ECGC*

The Director General of Project Exports Promotion Council will be a permanent invitee.

[Reference: para 9.1.1.1]

- 2.1.1.2** *The Committee may invite representatives from other Ministries and agencies on a need basis to participate in the deliberations.*

Taxation and related issues for facilitating project exports may be reviewed by High Level Committee on Project Exports where Revenue Secretary would be a Special Invitee. The Committee will meet mandatorily every three months, at least four times a year, or at more frequent intervals as determined by the Chairman. The Secretariat for this Standing Committee will be headed by Joint Secretary, MOC. [Reference: para 9.1.1.2]

[Action: MOF, GOI – within 6 months]

2.1.2 COUNTRY PROGRAMMING MISSIONS TO TARGET COUNTRIES

- 2.1.2.1** *Country Programming Missions to target countries should be initiated by GOI to facilitate interactions with Policy Makers, Government, Trade Promotion Bodies to identify areas for cooperation and chalking out strategies for Indian companies to undertake identified projects that serve their national objectives in consonance with planning priorities. Boost may be given in particular to supporting projects in SAARC region. [Reference: para 9.1.2]*

[Action: MOF, MOC, GOI, Indian Missions, Exim India – within 6 months]

2.1.3 HARMONISATION OF POLICIES HAVING DIRECT BEARING ON PROJECT EXPORTS

- 2.1.3.1** *A uniform approach may be adopted to bring about harmonisation of taxation policies having direct bearing on project exports. Taxation issues related to project exports will be discussed in the High Level Standing Committee on Project Exports, and appropriate steps initiated. A broad objective that is recommended is to adopt the same approach between product exporters and project exporters with respect to benefits on earnings.*

[Action : MOF, MOC, GOI – within 24 months]

[Reference: para 9.1.3]

2.2 **PROCEDURE RELATED RECOMMENDATIONS**

2.2.1 **ESTABLISHMENT OF COORDINATING AGENCY**

2.2.1.1 *There is a need for establishment of a high level Government / Industry coordinating agency, as 'Project Exports Promotion Council' (PEPC), which will act as an apex organisation for enhancing project exports. This body could also coordinate the approach to projects in terms of facilitating information access. This will be an autonomous body and the main function of the body would be to create an effective synergy among Indian Missions, GOI, RBI, Exim India, ECGC, Industry Associations and Commercial Banks to ensure early identification of projects, intelligence collection, effective information dissemination. While the Agency would eventually over a period of five years operate on a self-sustaining basis, the equity contribution in creation of this body would come from Government/Industry/Institutions and Associations. [Reference: para 9.2.1]*

2.2.1.2 *The Coordinating Agency would address various issues including :*

- (i) market intelligence;*
- (ii) promotional activities to project the image of India abroad;*
- (iii) establishment of a centralized database on vendors, suppliers, contractors and consultants;*
- (iv) providing impetus to a Consortium Approach towards project exports;*
- (v) assistance to Indian companies to embark on focus markets, duly taking into account advantages of geographical proximity, goodwill and traditional linkages*
- (vi) setting up a Screening Committee of the Industry Associations to determine and implement norms for eligibility of Indian Project exporters. In this context, the Screening Committee, including members from the Industry, may consider utilizing criteria such as:*
 - ISO Certifications*
 - Performance Gradings by independent grading companies*
 - MOC would catalyse the setting up of the Screening Committee. Eligible project exporters would thus be facilitated under various support programmes.*

[Reference: para 9.2.1.2]

2.2.1.3 The Projects Exports Promotion Council would be headed by a Director General, who would be a permanent invitee of the **High Powered Standing Committee**. The Coordinating Agency will include divisions for Consultancy and Technology Development to ensure that these receive adequate attention. PEPC will interact closely with the Project Facilitation Cells of the Indian Missions abroad. [Reference: para 9.2.1.2.1]

2.2.1.4 The primary functions of Consultancy Division would include:

- (i) Identification of business opportunities
- (ii) Providing global market intelligence and contributing to business strategy
- (iii) Creating a databank on suppliers and construction companies with whom Indian consultants can tie up particularly for large Engineering Procurement and Construction contracts
- (iv) Effectively publicizing India's consultancy expertise
- (v) Establishing linkages with various funding agencies
- (vi) Promoting the consultancy profession

[Reference: para 9.2.1.2.2]

2.2.1.5 A Technology Development Fund should be introduced for absorption and development of latest technology in project exports. Indian companies should be facilitated to utilise this technology for executing projects in India and abroad. Absorption of such technology would help Indian Industry to submit comprehensive packages for bids in the international market. [Reference: para 9.2.1.2.2]

[Action: MOC, GOI, Exim India – within 6 months]

2.2.2 IMPROVEMENT OF INDIA'S PERFORMANCE IN PROJECTS FUNDED BY MULTILATERAL FUNDING AGENCIES

2.2.2.1 Analytical

Indian companies should develop appropriate strategies to increase share in the procurement business.

2.2.2.2 Information

Indian companies need to track project opportunities from the stage of conceptualisation. Information may also be gathered by Indian missions on upcoming project opportunities in their regions through Project Facilitation Cells on continual basis, and information disseminated through PEPC to the Industry.

2.2.2.3 Skill Development

Exim India organizes from time to time workshops on MFA procurement procedures and norms at which specialist MFA officials while providing information on procurement guidelines, policies and practices also discuss with Indian bidders the nuances, pitfalls and safeguards to be kept in mind. More intense and target specific workshops/training programmes for the benefit of Project Exporters need to be organised, at regular intervals.

2.2.2.4 Strategic

India needs to quickly become a member of regional development institutions like the Inter-American Development Bank, European Bank for Reconstruction and Development, Central American Bank for Economic Integration, Caribbean Development Bank, West African Development Bank, PTA Bank. In most cases, only companies from member countries are eligible to participate in business opportunities provided by projects/ programmes funded by such agencies.

[Reference: para 9.2.2]

**[Action: GOI, Exim India, GOI representatives at various
Multilateral Funding Agencies – within 12 months]**

2.3 INSTITUTION RELATED RECOMMENDATIONS

2.3.1 CAPACITY BUILDING OF INDIAN MISSIONS

2.3.1.1 *There is an urgent need for strengthening and capacity building of Indian Missions to improve their delivery mechanisms and support structures to assist Indian Project Exporters. [References: paras 7.2, 9.3.1.1]*

2.3.1.2 *Better and institutionalised co-ordination between Indian Missions and Industry/ Industry Associations is needed to ensure timely and effective intervention aimed at identifying and exploiting opportunities.*

2.3.1.3 *Project Facilitation Cells (PFC) may be set up in Indian Missions to support project exports through pro-active measures. The cell would coordinate closely with industry organisations and other concerned agencies. PFC would be headed by the Deputy to Ambassador/High Commissioner in the Mission. Members of the Cell may be drawn from representatives of Indian Industry Associations who would be posted to the Cell, and may also include representatives of key Indian companies who have considerable business presence in the respective countries. PFC in Indian Missions will work in close coordination with PEPC to ensure timely and effective intervention aimed at identifying and exploiting opportunities, through information sharing, submission of bids and their follow-up through advocacy. [Reference: para 9.3.1.2]*

[Action: MEA, GOI – within 6 months]

2.3.2 STRENGTHENING OF EXIM INDIA

2.3.2.1 *Exim India may be made available funds of the order of US\$ 2 billion per year for the next six years to enable them to support projects, especially large valued ones, on more competitive credit terms and with extended periods of repayment. The total funds at their disposal at the end of five years is visualized to be US\$ 12 billion. Export Development Fund (EDF) could be a vehicle to implement it.*

Exim India, under its Act, is to administer the Export Development Fund (EDF) on behalf of GOI. EDF can be used to support such transactions which is considered necessary by GOI as a matter of priority in the interests of the international trade of the country. To enable Exim India to provide long-term funding on competitive terms for project exports, it is recommended that GOI may consider funding the EDF in US Dollars over a period. Broad guidelines for utilising the fund can be laid down by the High Level Standing Committee, from time to time.

[Action : MOF, GOI – within 12 months]

- 2.3.2.2** *Domestic banks are to lend a minimum of 12 percent of advances by way of export credit. The shortfall in export credit by commercial banks may be deposited with Exim India at Bank Rate on medium/long term basis. Exim India may swap these rupee funds with GOI for dollar resources.*

[Action : MOF, GOI – within 12 months]

- 2.3.2.3** *The foreign exchange reserves held by RBI can be deployed for the purpose with stipulation that RBI should receive the same interest rates from Exim India as would otherwise be earned by them.*

[Action : MOF, GOI – within 12 months]

- 2.3.2.4** *Exim India's authorised capital may be increased from Rs. 1000 crores to Rs. 10,000 crores with GOI infusion of capital of Rs. 100 crores every year.*

[Action : MOF, GOI – within 12 months]

- 2.3.2.5** *In a number of countries, Governments operate an interest make-up/ equalisation system under which the Government makes good the difference between market interest rates and concessional export finance rates allowing a minimum assured margin to ECAs for export credit loans extended by them. This enables ECAs to provide exclusive support to their national exports by extending credit at competitive costs ensuring that their national exports do not suffer for want of competitive credit. GOI may support Exim India through an Interest Equalisation Scheme to be determined by the proposed High Level Standing Committee.*

[Action: MOF, GOI – within 6 months]

2.3.2.6 *In keeping with comparable practices followed by competitor countries like Brazil, Republic of China and Japan, Exim India, as an agent of GOI, could operate the Lines of Credit (LOCs) extended by GOI to overseas governments. In terms of arrangement, Exim India will provide the funds and manage the LOCs. However, the risk will be borne by the Government, and interest support will be provided to Exim India. GOI has already agreed to such an arrangement in the case of a USD 200 mn LOC to Iran. This will create synergy between Exim India's current operations to support project exports and GOI objectives.*

[Action: MOF, GOI – within 6 months]

2.3.2.7 *Correspondingly, Exim India as an institution must evolve, expand and strengthen its reach, coverage as a major international financial institution to support international trade and investment, with particular reference to project exports from India.*

[Action: MOF, GOI, Exim India – within 12 months]

[Reference: para 9.3.2.1.2]

2.3.3 STRENGTHENING OF ECGC

2.3.3.1 *Government should extend support to ECGC to provide service in the same manner as a project exporter in a competing country would be getting from his export credit insurance provider (counterpart of ECGC in competitor's country).*

2.3.3.2 *ECGC should be reimbursed the losses on account of political risks by Government of India by taking over the debts of Iraq. It has been done so in other countries in similar situations where the national governments have paid out compensations out of their budgets without affecting the financial position of credit risk insurer.*

2.3.3.3 *Strengthening of equity base of ECGC to ensure capital adequacy as per accepted norms of credit insurance business.*

- 2.3.3.4 *Wherever reinsurance is possible to arrange, if the costs are prohibitive, governmental support in the pricing to ensure smooth cash flow and lesser financial burden for exporter should be considered.*
- 2.3.3.5 (a) *Government Guarantees to enable ECGC to cover high value project risks without the need of reinsurance, which will make them competitive and also provide cover in some countries in emerging markets like Africa & Latin America.*
- (b) *In the absence of reinsurance, ECGC should be in a position to draw support from the Government National Interest Account, or even to operate the cover on behalf of the Government.*
- (c) *The underwriting of risks may be done on behalf of and to the account of Government.*
- 2.3.3.6 *Yearly allocation currently to equity takes care of only short term underwriting capacity. A quantum jump say from the present level of Rs. 50 crores to Rs. 300 crores per year for 6 years will enable ECGC to undertake atleast 5 times of that as additional maximum liability.*
- 2.3.3.7 *The proposal regarding National Interest Account as is prevalent in other countries like UK, Australia, Republic of Korea should be implemented. This enables cover for project exports which otherwise do not meet the normal commercial underwriting criteria.*
- 2.3.3.8 *ECGC, as an institution, must evolve and gear itself to function as a significant credit insurance agency to support project exports from India.*

[Action: MOC, MOF, GOI, ECGC – within 12 months]

[Reference: para 9.3.2.2.2]

3.

Key Recommendations Matrix

Policy	Procedure	Institution
<p>1. <u>Constitution of High Level Standing Committee</u></p> <p><input type="checkbox"/> A High Level Standing Committee chaired by Secretary, Ministry of Commerce with representatives from Ministry of Finance, Ministry of Commerce, Ministry of External Affairs, Exim India, ECGC may be set up to support projects which need special attention and to deal with wide ranging issues, including taxation, special dispensations, impacting on project exports.</p> <p>This High Powered Committee will comprise the following members:</p> <p>* Secretary, Ministry of Commerce & Industry (Chairman).</p> <p>* Secretary, Department of Economic Affairs, Ministry of Finance or his nominee not below rank of the Joint Secretary.</p>	<p>1. <u>Establishment of Coordinating Agency</u></p> <p><input type="checkbox"/> Establishment of a high level Government/ Industry coordinating agency, as the 'Project Exports Promotion Council' (PEPC) which will act as an apex organisation for enhancing project exports. This body could also help evolve pro-active approaches to access timely information.</p> <p>This will be an autonomous body and the main function of the body would be to create effective synergy among Indian Missions, GOI, Exim India, ECGC, Industry Associations and Commercial Banks. Exim India would play a key role in setting up such an Agency.</p> <p>The Coordinating Agency may address various issues which would include:</p>	<p>1. <u>Capacity Building of Indian Missions</u></p> <p><input type="checkbox"/> Strengthening and capacity building of Indian Missions to improve their delivery mechanisms and support structures to assist Indian Project Exporter.</p> <p><input type="checkbox"/> Better and institutionalised co-ordination between Indian Missions and Industry / Industry Associations to ensure timely and effective intervention.</p> <p><input type="checkbox"/> Project Facilitation Cells (PFC) may be set up in Indian Missions to facilitate project exports through pro-active measures.</p> <p>PFC would be headed by the Deputy to Ambassador/High Commissioner in the Mission. Members of the Cell will be drawn from representatives of Indian Industry Associations as also representatives of select Indian companies who have considerable business presence in the respective countries. PFC in Indian Missions will work in close coordination with the proposed 'Project Export</p>

<i>Policy</i>	<i>Procedure</i>	<i>Institution</i>
<ul style="list-style-type: none"> * Secretary, Ministry of External Affairs or his nominee not below rank of the Joint Secretary. * Reserve Bank of India, of rank not below that of Executive Director. * Managing Director & Chief Executive Officer of Exim India. * Chairman & Managing Director of ECGC. <p>Director General of Project Exports Promotion Council will be a permanent invitee</p> <p>The Committee will address wide ranging issues impacting on project exports.</p> <p>Taxation and related issues for facilitating project exports will be reviewed by High Level Committee where Revenue Secretary will be a Special Invitee.</p> <p>The Committee will meet mandatorily every three months, at least four times</p>	<ul style="list-style-type: none"> – market intelligence; – promotional activities to project the image of India abroad; – establishment of a centralized database on India's accredited vendors, suppliers, contractors and consultants; – giving impetus to Consortium Approach; – assisting Indian companies in identifying target markets duly factoring in advantages of geographical proximity, goodwill and traditional linkages; – setting up a Screening Committee of the Industry Associations to determine and implement eligibility norms for Indian Project Exporters. 	<p>Promotion Council' (PEPC).</p> <p><u>[Action : MEA, GOI – within 6 months]</u></p> <p>2. <u>Strengthening of Exim India:</u></p> <ul style="list-style-type: none"> ❑ Exim India may be made available funds of the order of US\$ 2 billion per year for the next six years to enable them to support projects, especially large valued ones, on more competitive credit terms and with extended periods. The total funds at their disposal at the end of five years is visualized to be US\$ 12 billion. <p><u>[Action : MOE, GOI – within 12 months]</u></p> <ul style="list-style-type: none"> ❑ The shortfall in export credit financing by commercial banks may be deposited with Exim India to be swapped with GOI for dollar resources. <p><u>[Action : MOE, GOI – within 12 months]</u></p> <ul style="list-style-type: none"> ❑ Activating Export Development Fund (EDF) of Exim India:

Policy	Procedure	Institution
<p>a year, or at more frequent intervals, as determined by the Chairman on a need basis.</p> <p>The Secretariat for this Standing Committee will be headed by Joint Secretary, Ministry of Commerce & Industry.</p> <p><u>[Action: MOF, GOI, – within 6 months]</u></p> <p>2. <u>Country Programming Missions</u></p> <p><input type="checkbox"/> Country Programming Missions to target countries should be initiated by GOI to facilitate interactions with Policy Makers, Government, Trade Promotion Bodies of these countries to identify areas for cooperation and chalk out strategies for Indian companies to undertake identified projects that serve their national objectives in consonance with planning priorities.</p>	<p>MOC would catalyse the setting up of the Screening Committee. Eligible project exporters would thus be facilitated under various support programmes.</p> <p>Projects Exports Promotion Council would be headed by a Director General, who would be a permanent invitee of the High Powered Standing Committee.</p> <p><input type="checkbox"/> The Coordinating Agency will include divisions to handle Consultancy and Technology Development. This Council will coordinate efforts with the Project Facilitation Cells of the Indian Missions abroad. The primary functions of the Consultancy Division would include:</p> <p>– Development of the consultancy profession.</p>	<p>EDF can be used to support such transactions which are considered necessary by GOI as a matter of priority in the interests of the international trade of the country. It is recommended that GOI may consider funding the EDF in US Dollars over a period.</p> <p><u>[Action : MOF/ GOI – within 12 months]</u></p> <p><input type="checkbox"/> The foreign exchange reserves currently held by RBI can also be deployed for the purpose with RBI receiving interest from Exim India at rates that would otherwise be earned by them.</p> <p><u>[Action : MOF/ GOI – within 12 months]</u></p> <p><input type="checkbox"/> Exim India's authorised capital may be increased from Rs. 1000 crores to Rs. 10,000 crores with GOI infusion of capitalisation increasing Rs.100 crores every year.</p> <p><u>[Action : MOF/ GOI – within 12 months]</u></p>

Policy

Boost may be given in particular to supporting projects in SAARC region.

[Action: MOF, MOC, GOI, Indian Missions, Exim India – within 6 months]

3. **Harmonisation of taxation policies**

- Taxation issues related to project exports will be discussed in the High Level Standing Committee on Project Exports, and appropriate steps initiated. A broad objective would be to ensure that same approach may be adopted between product exporters and project exporters with respect to benefits received on earnings in convertible foreign exchange for the country.

[Action: MOF, MOC, GOI – within 24 months]

Procedure

- Identification of business opportunities.
- Providing global market intelligence and business strategy to the members.
- Creating a databank on suppliers and construction companies with whom Indian consultants can tie up for EPC contracts.
- Effectively publicising India's consultancy expertise.
- Establishing linkages with various funding agencies and acting as representative for Indian firms to get registered.

- A Technology Development Fund should be introduced for development and absorption of latest

Institution

- GOI may support Exim India through an Interest Equalisation Scheme to be decided by the High Level Standing Committee to match international competitive practices.

[Action : MOF, GOI – within 6 months]

- Exim India, as an agent of GOI, could operate the Lines of Credit (LOCs) extended by GOI to overseas governments. Exim India may provide the funds and manage the LOCs. However, the risk will be borne by the Government, and interest support will be provided to Exim India. GOI has already agreed to such an arrangement in the case of a US\$ 200 million LOC to Iran. This will create further synergy between Exim India's current operations to support project exports and GOI objectives.

[Action: MOF, GOI – within 6 months]

- Correspondingly, Exim India as an institution must evolve, expand and strengthen its reach,

<i>Policy</i>	<i>Procedure</i>	<i>Institution</i>
	<p>technology in project exports. Indian companies would be facilitated to utilise such technology for executing projects.</p> <p><u>[Action: MOC, GOI, Exim India – within 6 months]</u></p> <p>2. <u>Improvement of India's performance in projects funded by MFAs:</u></p> <p><input type="checkbox"/> <u>Analytical</u> Indian companies to develop appropriate strategies to increase share in the procurement business.</p> <p><input type="checkbox"/> <u>Information</u> Track project opportunities from the stage of conceptualisation. Information may also be gathered by Indian missions on continual basis, and information disseminated through PEPC to the Industry.</p> <p><input type="checkbox"/> <u>Skill Development</u> Conduct more intense and target specific</p>	<p>coverage as a major international financial institution to support project exports from India.</p> <p><u>[Action : MOF, GOI, Exim India – within 12 months]</u></p> <p>3. <u>Strengthening of ECGC:</u></p> <p><input type="checkbox"/> Government should extend support to ECGC to enable them to provide service in the same manner as a project exporter in a competing country would be getting from his export credit insurance provider (counterpart of ECGC in competitor's country).</p> <p><input type="checkbox"/> ECGC should be reimbursed the losses on account of political risks by Government of India by taking over the debts of Iraq. It has been done so in other countries in similar situations where the national governments have paid out compensations out of their budgets without affecting the financial position of credit risk insurer.</p> <p><input type="checkbox"/> Strengthening of equity base of ECGC to ensure capital adequacy as per accepted</p>

<i>Policy</i>	<i>Procedure</i>	<i>Institution</i>
	<p>workshops/ training programmes for the benefit of Project Exporters utilising faculty from multilateral agencies, at regular intervals.</p> <p><input type="checkbox"/> <u>Membership with MFAs:</u></p> <p>India needs to quickly become a member of regional development institutions like the Inter-American Development Bank, European Bank for Reconstruction and Development, Central American Bank for Economic Integration, Caribbean Development Bank, West African Development Bank, PTA Bank for increasing procurement business opportunities.</p> <p><u>[Action: GOI, Exim India, GOI representatives at various Multilateral Funding Agencies – within 12 months]</u></p>	<p>norms of credit insurance business.</p> <p><input type="checkbox"/> Wherever re- insurance is possible to arrange, if the costs are prohibitive, governmental support in the pricing to ensure smooth cash flow and lesser financial burden for exporter should be considered.</p> <p><input type="checkbox"/> Government Guarantees to enable ECGC to cover high value project risks without the need of reinsurance, which will make them competitive and also provide cover in countries of emerging markets like Africa and Latin America.</p> <p><input type="checkbox"/> In the absence of reinsurance, ECGC should be in a position to draw support from the Government National Interest Account or even to operate the cover on behalf of the Government.</p> <p><input type="checkbox"/> The underwriting of risks may be done on behalf of and to the account of the Government.</p> <p><input type="checkbox"/> Yearly allocation currently to equity takes care of only short term underwriting capacity. An increase from</p>

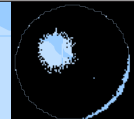
<i>Policy</i>	<i>Procedure</i>	<i>Institution</i>
		<p>the present level of Rs 50 crores to Rs.300 crores per year for 6 years will enable ECGC to undertake at least 5 times this amount as additional maximum liability.</p> <ul style="list-style-type: none"> ❑ The proposal regarding National Interest Account as is prevalent in other countries like UK, Australia, Korea should be implemented. This enables cover for project exports which otherwise do not meet the normal commercial underwriting criteria. ❑ Correspondingly, ECGC as an institution must evolve and gear itself to function as a significant international credit insurance agency to support project exports from India. <p><u>[Action: MOC, MOE, GOI, ECGC – within 12 months]</u></p>

4.

A Presentation



सत्यमेव जयते



Report of Task Force on Project Exports

A Presentation
By
G.S. Dutt, IAS
Joint Secretary, Foreign Trade & Investment,
Department of Economic Affairs,
Ministry of Finance,
Government of India

January 2003



सत्यमेव जयते

This Presentation is in 4 Parts

- ❖ **TASK FORCE ON PROJECT EXPORTS**
- ❖ **TRENDS IN PROJECT EXPORTS**
- ❖ **INTERNATIONAL BENCHMARKING**
- ❖ **RECOMMENDATIONS**



Part I

Task Force on Project Exports



Objective of the Task Force

“The Task Force was mandated to submit recommendations aimed at attaining the level of ingenuity, flexibility, procedural simplicity and competitiveness achieved by competitor nations to ensure quantum increase in turnkey/other project exports”



Members of the Task Force

- ❖ Shri G.S. Dutt, Joint Secretary, Ministry of Finance & Company Affairs - **CHAIRMAN**
- ❖ Department of Commerce, Ministry of Commerce & Industry
- ❖ Department of Expenditure, Ministry of Finance & Company Affairs
- ❖ Department of Revenue, Ministry of Finance & Company Affairs
- ❖ Ministry of External Affairs
- ❖ Prime Minister's Office
- ❖ The Associated Chambers of Commerce & Industry of India
- ❖ Confederation of Indian Industry
- ❖ Federation of Indian Chambers of Commerce & Industry
- ❖ Export Credit Guarantee Corporation of India
- ❖ Export-Import Bank of India - **SECRETARIAT**



Terms of Reference

- ❖ ANALYSIS OF PERFORMANCE OF INDIA'S PROJECT EXPORTS
- ❖ ISSUES/CONSTRAINTS FACED
- ❖ BENCHMARKING AGAINST INTERNATIONAL PRACTICES
 - EXPORT CREDIT AGENCIES
 - TRADE PROMOTION AGENCIES
- ❖ RECOMMENDATIONS TO ACHIEVE QUANTUM INCREASE IN PROJECT EXPORTS
 - POLICY
 - PROCEDURE
 - INSTITUTION
- ❖ TIME FRAME FOR IMPLEMENTATION OF RECOMMENDATIONS
 - SHORT TERM
 - MEDIUM TERM
 - LONG TERM



Part II

Trends in Project Exports



Project Exports

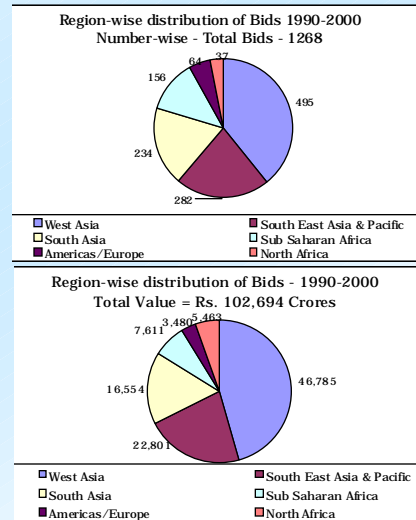
- ❖ CIVIL CONSTRUCTION
- ❖ TURNKEY MODULES
- ❖ CONSULTANCY SERVICES
- ❖ SUPPLIES OF CAPITAL GOODS AND INDUSTRIAL MANUFACTURES



Region – wise Analysis (1990-2000)

- ❖ West Asia emerged as the major market for Indian exporters accounting for 39% number wise and 46% value wise followed by South East Asia & Pacific and South Asia
- ❖ South East Asia constituted 22% both by number and by value, South Asia was 18% number wise and 16% value wise

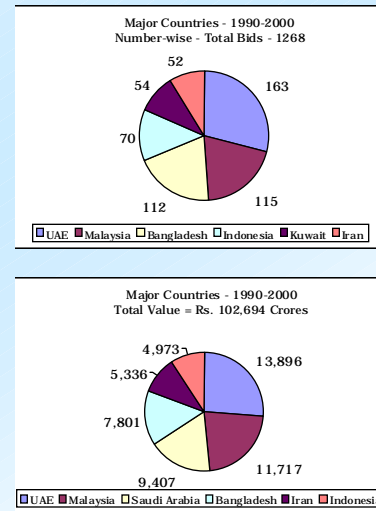
(Source : Exim India)

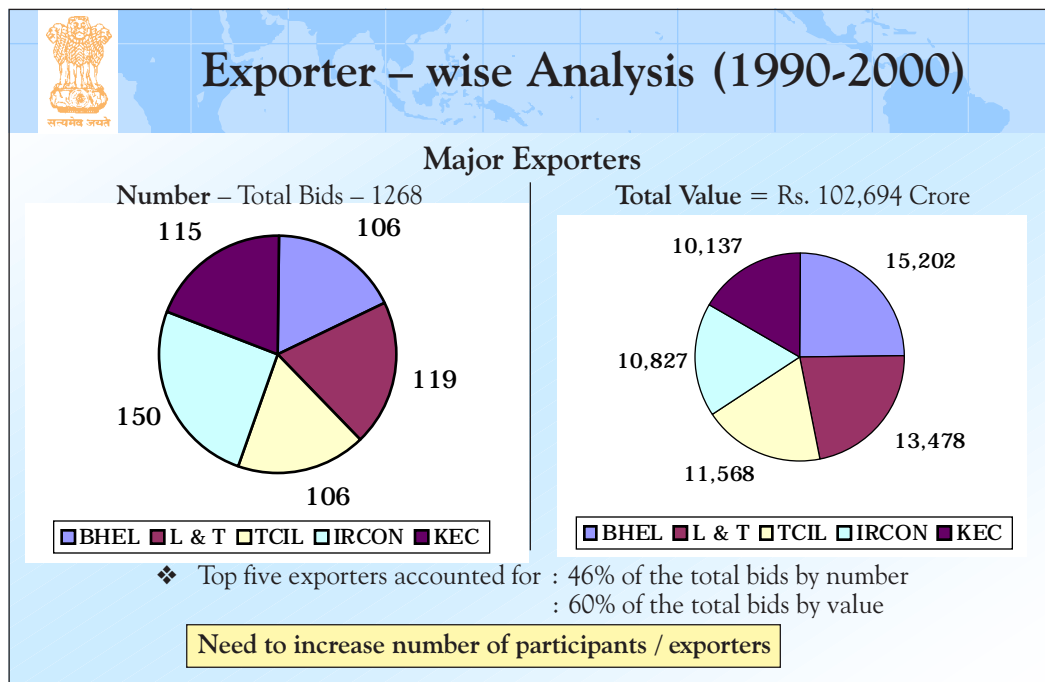


Destination – wise Analysis (1990-2000)

- ❖ Geographical spread of markets aggregated to around 40 countries.
- ❖ The top six countries accounted for 45% by number and 52% by value of the total bids during the decade.

Need to diversify markets







Reasons for Loss of Bids

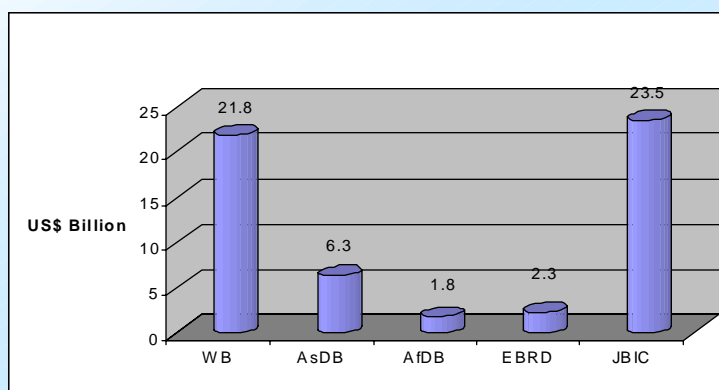
❖ Principal Factors

- ❖ *Uncompetitive Price*
- ❖ *Deviations from Specifications*
- ❖ *Credit Terms*
- ❖ *Delivery Schedules*
- ❖ *Others such as:*
 - Client's preferences for known / established exporters
 - Influence of local associates
 - Relations with the host country



Trends in Multilateral Lending

Average Annual Funding



Total: US\$ 56 billion

WB – World Bank; AsDB – Asian Development Bank; AfDB – African Development Bank; EBRD – European Bank for Reconstruction & Development; JBIC – Japan Bank for International Cooperation



Constraints faced by Project Exporters

- ❖ BRAND IMAGE OF INDIA AS A SIGNIFICANT PROJECT EXPORTER YET TO BE ESTABLISHED
- ❖ MULTI-PRONGED COORDINATED APPROACH YET TO BE DEVELOPED WITH PRO-ACTIVE INSTITUTIONAL SUPPORT
- ❖ INADEQUATE INFORMATION ACCESS AND DISSEMINATION SYSTEMS
- ❖ NEED FOR INDIAN CONSULTANTS TO HAVE ENHANCED PRESENCE IN THRUST MARKETS
- ❖ INABILITY TO OFFER FINANCIAL PACKAGES AT FINE RATES OVER EXTENDED PERIODS
- ❖ LIMITED RISK TAKING CAPABILITY



Part III

INTERNATIONAL BENCHMARKING



International Benchmarking – Export Credit Agencies

- ❖ COMPETITOR COUNTRIES OFFER ATTRACTIVE CREDIT PACKAGES AND INSURANCE COVERAGE WITH SUPPORT FROM THEIR GOVERNMENT/ GOVERNMENT AGENCIES



International Benchmarking – Export Credit Agencies

- ❖ INFUSION OF SHARE CAPITAL
 - 90 PERCENT OF EXIM USA'S RESOURCES ARE FROM US TREASURY
 - ECGD, UK LOSSES MADE GOOD BY NATIONAL TREASURY ACCOUNT
- ❖ CAPITAL INFUSION
 - USA US\$ 218 MN. OPERATING SUPPORT (2000)
 - REPUBLIC OF KOREA US\$159 MN. (2000)
 - REPUBLIC OF CHINA US\$ 67 MN. (2000)

ALLOWS GREATER RISK TAKING ABILITY IN NATIONAL INTEREST OF PROMOTING EXPORTS



Export Credit Finance

- ❖ **SOVEREIGN GUARANTEES FOR BORROWINGS**
ENABLES RAISING OF FUNDS AT FINE RATES
 - CANADA, JAPAN, REPUBLIC OF KOREA
- ❖ **INTEREST EQUALISATION SUPPORT**
PROVIDED BY BRAZIL, CHINA, FRANCE, GERMANY, JAPAN
 - GOVERNMENT MAKES GOOD THE DIFFERENCE BETWEEN MARKET INTEREST RATES AND CONCESSIONAL EXPORT FINANCE RATES



Interest Equalisation Support by various ECAs

Country	Institution	Export Credit support
Brazil	Banco do Brasil	<ul style="list-style-type: none"> Administers PROEX which provides export credit as Govt. agent and administers int. rate equalization system using treasury resources
China	Exim Bank of China	<ul style="list-style-type: none"> Policy bank of Government of China Not bound by OECD consensus.
France	Natexis Banque (formerly known as BFCE)	<ul style="list-style-type: none"> Manages interest rate equalization scheme on behalf of French Treasury.
Germany	KfW	<ul style="list-style-type: none"> Administers interest rate support schemes from German Government funds for aircraft and ship financing.
Japan	Japan Bank for International Cooperation (JBIC)	<ul style="list-style-type: none"> Provides export loans in Japanese Yen @ 1.4% p.a. which is the current CIRR for JPY.



Export Credit Insurance

- ❖ **EXPORT CREDIT INSURANCE OFFERED ON GOVERNMENT ACCOUNT**
- ❖ **COMPETING INSTITUTIONS BACKED FULLY BY THEIR GOVERNMENTS WITH REGARD TO UNDERWRITING PROJECT EXPORTS**
- ❖ **MANY INSTITUTIONS OFFER COVER BY UNDERWRITING ALL RISKS IN NAME AND ACCOUNT OF THEIR GOVERNMENTS**
 - **SINOSURE, CHINA**
 - **HERMES, GERMANY**



Government support given to ECGC's counterparts

Export Credit Insurance Company	Insurance Support given by the 9 countries
SBCE, Brazil	All Medium and Long Term business is underwritten by Brazil Exports Guarantee Fund supported by country's treasury
China Export and Credit Insurance Corporation (Sinosure)	All risks in the name and account of government
COFACE, France	All risks per transactions beyond 3 years credit are covered on behalf of the state.
HERMES, Germany	All risks in the name and account of government
Korea Export Insurance Corporation (KEIC)	Treasury support to meet the deficit in the Revenue Account to meet Claims Payment
Malaysia Export Credit Insurance Berhad	To approach Government for support, had consulted ECGC also.
Nippon Export and Investment Insurance (NEXI), Japan	100% cover for medium and long term transactions with government guarantees or sovereign loans
ECGD, UK	For high risk markets and for business operated under ministerial directive which did not meet ECGD's underwriting criteria, it is directly underwritten by treasury.
EXIM USA	All risks in the name and account of government



International Benchmarking – Trade Missions

- AUSTRALIAN TRADE COMMISSION
- CHINA COUNCIL FOR PROMOTION OF INTERNATIONAL TRADE
- JAPAN EXTERNAL TRADE ORGANISATION
- KOREAN TRADE PROMOTION AGENCY
- MALAYSIAN EXTERNAL TRADE DEVELOPMENT CORPORATION
- US COMMERCIAL SERVICE, USA



International Benchmarking – Trade Missions

**TRADE MISSIONS — WITH THE EMBASSIES —
RENDER WIDE RANGE OF SERVICES**

- ❖ INFORMATION ACCESS
- ❖ MARKET RESEARCH
- ❖ MARKET ENTRY STRATEGIES
- ❖ TRADE ENQUIRIES
- ❖ IDENTIFICATION OF PARTNERS
- ❖ ASSISTANCE IN TRADE EVENTS
- ❖ CONSULTING & ADVOCACY



Part IV

Recommendations of the Committee



Constitution of High Level Standing Committee on Project Exports

- ❖ SECRETARY, MOC (CHAIRMAN)
- ❖ SECRETARY, DEA, MOF
- ❖ SECRETARY, MEA
- ❖ ED, RBI
- ❖ MD & CEO, EXIM INDIA
- ❖ CMD, ECGC

DG, PROJECT EXPORTS PROMOTION COUNCIL –
PERMANENT INVITEE

COMMITTEE WILL DEAL WITH WIDE RANGING ISSUES REQUIRING HIGH
LEVEL COORDINATED INTERVENTION, INCLUDING SPECIAL PROJECTS.

[Action: MOF, GOI - within 6 months]



Mount Country Programming Missions To Target Countries

- ❖ INTERACTIONS WITH GOVERNMENT, POLICY MAKERS, TRADE PROMOTION BODIES
- ❖ IDENTIFICATION OF AREAS/PROGRAMMES FOR ECONOMIC CO-OPERATION
- ❖ CHALK OUT STRATEGIES FOR INDIAN COMPANIES TO UNDERTAKE IDENTIFIED PROJECTS/PROGRAMMES

PARTICULAR BOOST TO PROJECTS
IN SAARC REGION

[Action: MOF, MOC, GOI, Indian Missions, Exim India - within 6 months]



Harmonisation of Policies

ISSUES IMPACTING PROJECT EXPORTS

- UNIFORM APPROACH BETWEEN PRODUCT AND PROJECT EXPORTS
- INCOME TAX FACILITIES
- CROSS BORDER LEASING/HIRING OF EQUIPMENT
- DUTIES ON RE-IMPORT OF EQUIPMENT
- PROVISIONS IN EXIM POLICY
- INTEREST ON EEFC ACCOUNTS

[Action: MOF, MOC, GOI - within 24 months]



Establishment of Coordinating Agency

- A HIGH LEVEL GOVERNMENT/INDUSTRY COORDINATING AGENCY AS “PROJECT EXPORTS PROMOTION COUNCIL”
- PEPC WILL FUNCTION AS APEX ORGANISATION FOR ENHANCING PROJECT EXPORTS
- PEPC WOULD ADDRESS ISSUES SUCH AS
 - MARKET INTELLIGENCE
 - IDENTIFICATION OF TARGET MARKETS
 - DEVELOPMENT/MAINTENANCE OF DATABASE ON COMPANIES
 - ESTABLISHING SCREENING COMMITTEE
 - PROMOTIONAL ACTIVITIES
 - CONSORTIA APPROACH
 - LEVERAGING ON STRENGTHS/ADVANTAGES – INDIAN INVESTMENTS OVERSEAS

[Action: MOC, GOI, Exim India - within 6 months]



Improving India's Performance In Multilateral Funded Projects Overseas

- ACCESS INFORMATION
- GAIN DEEPER UNDERSTANDING OF PROCUREMENT GUIDELINES, POLICIES AND PROCEDURES
- UNDERSTAND COMPETITIVE PRACTICES

SEEK MEMBERSHIP IN:

- EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
- INTER-AMERICAN DEVELOPMENT BANK
- PTA BANK (EASTERN & SOUTHERN AFRICA)
- WEST AFRICAN DEVELOPMENT BANK
- CARIBBEAN DEVELOPMENT BANK
- CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

[Action: GOI, Exim India, GOI Representatives at various MFAs - within 12 months]



Capacity Building of Indian Missions

- ❖ ENHANCED ROLE IN PROMOTION OF PROJECT EXPORTS
- ❖ STRENGTHENING AND CAPACITY BUILDING OF INDIAN MISSIONS TO IMPROVE THEIR DELIVERY MECHANISMS
- ❖ PRO-ACTIVE INTERACTION WITH INDUSTRY
- ❖ SETTING UP OF 'PROJECT FACILITATION CELL'
 - HEADED BY DEPUTY TO AMBASSADOR
 - INDUSTRY REPRESENTATIVESTO INTERACT CLOSELY WITH PEPC/EXIM INDIA

[Action: MEA, GOI - within 6 months]



Strengthening of Exim India

- ❖ EXIM INDIA TO BE FURTHER EMPOWERED, PARTICULARLY TO SUPPORT LARGE VALUED PROJECTS ON MORE COMPETITIVE CREDIT TERMS OVER EXTENDED PERIODS
- ❖ EXIM INDIA TO BE PROVIDED FUNDS OF USD 2 BILLION/ YEAR FOR NEXT SIX YEARS
- ❖ SHORTFALL IN EXPORT CREDIT FINANCING BY COMMERCIAL BANKS TO BE DEPOSITED WITH EXIM INDIA AND SWAPPED TO US DOLLARS WITH GOI
- ❖ FOREIGN EXCHANGE RESERVES OF COUNTRY MAY BE DEPLOYED, WITH RBI TO RECEIVE INTEREST FROM EXIM INDIA

[Action: MOF, GOI - within 12 months]



Strengthening of Exim India

- ❖ EXIM INDIA, UNDER ITS ACT, IS TO ADMINISTER EXPORT DEVELOPMENT FUND (EDF) ON BEHALF OF GOI.
- ❖ EDF CAN BE USED TO SUPPORT TRANSACTIONS CONSIDERED NECESSARY BY GOI AS A MATTER OF PRIORITY IN INTEREST OF INTERNATIONAL TRADE OF THE COUNTRY.

GOI MAY FUND EDF IN US DOLLARS OVER A PERIOD

[Action: MOF, GOI - within 12 months]



Strengthening of Exim India

❖ INTEREST EQUALISATION SCHEME

In a number of countries, Government operate an interest make-up/ equalisation system under which the Government makes good the difference between market interest rates and concessional export finance rates allowing a minimum assured margin to ECAs for export credit loans extended by them.

GOI may support Exim India through an Interest Equalisation Scheme

[Action: MOF, GOI - within 6 months]



Strengthening of Exim India

- ❖ *Exim India, as an agent of GOI, could operate the Lines of Credit (LOCs) extended by GOI to overseas governments. In terms of arrangement, Exim India will provide the funds and manage the LOCs. However, the risk will be borne by the Government, and interest support will be provided to Exim India.*
- ❖ *GOI has already agreed to such an arrangement in the case of a USD 200 mn LOC to Iran. This will create synergy between Exim India's current operations to support project exports and GOI objectives.*

[Action: MOF, GOI - within 6 months]



Strengthening of Exim India

- ❖ *Exim India's authorised capital may be increased from Rs.1000 crores to Rs.10,000 crores with GOI infusion of capital of Rs.100 crores every year.*
- ❖ *Correspondingly, Exim India as an institution must evolve, expand and strengthen its reach, coverage as a major international financial institution to support project exports from India.*

[Action: MOF, GOI , Exim India - within 12 months]



Strengthening of ECGC

- ❖ Government to extend support to ECGC to provide service same as a project exporter in a competing country would be getting from his export credit insurance provider.
- ❖ Strengthening of equity base of ECGC.
- ❖ The proposal regarding National Interest Account as is prevalent in other countries like UK, Australia, Korea should be implemented. This enables cover for project exports which otherwise do not meet the normal commercial underwriting criteria.

[Action: MOF, MOC, GOI - within 12 months]



Strengthening of ECGC

- ❖ Wherever reinsurance is possible to arrange, if the costs are prohibitive, governmental support in the pricing to ensure smooth cash flow and lesser financial burden for exporter should be considered.
 - (a) Government Guarantees to enable ECGC to cover high value project risks without the need of reinsurance
 - (b) In the absence of reinsurance, ECGC should be in a position to draw support from the Government National Interest Account.
 - (c) The underwriting of risks may be done on behalf of and to the account of government.

[Action: MOF, MOC, GOI - within 12 months]



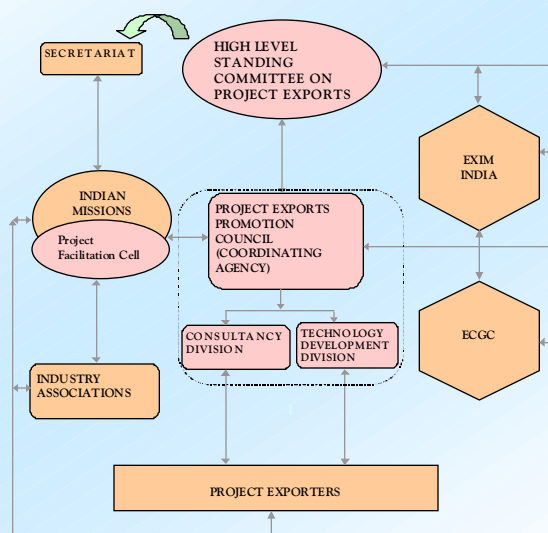
Strengthening of ECGC

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- ❖ Yearly allocation currently to equity takes care of only short term underwriting capacity. A quantum jump to Rs. 300 crores per year for 6 years will enable ECGC to undertake atleast 5 times of that as additional maximum liability.
- ❖ Correspondingly, ECGC as an institution must evolve and gear itself to function as a significant international credit insurance agency to support project exports from India.

[Action: MOF, MOC, GOI, ECGC - within 12 months]



Recommended Institutional Coordination



5.

Trends In Turnkey / Other Project Exports

5.1 BACKGROUND

Project Exports from India commenced with a modest beginning in the late 1970s. Since then, project exports have evolved over the years, with Indian companies demonstrating capabilities and expertise spanning a wide range of sectors. The nature of Project Exports being undertaken reflects the technological maturity and industrial capabilities in the country.

Project exports are broadly divided into four categories:

- ☐ Civil construction
- ☐ Turnkey modules
- ☐ Consultancy Services
- ☐ Supplies, primarily of capital goods and industrial manufactures

Civil construction projects:

Construction projects involve civil works, steel structural work, erection of utility equipment and include projects for building dams, bridges, airports, railway lines, roads and bridges, apartments, office complexes, hospitals, hotels, and desalination plants.

Turnkey projects:

Turnkey projects involve supply of equipment along with related services and cover activities from the conception stage to the commissioning of a project. Typical examples of turnkey projects are: supply, erection and commissioning of boilers, power plants, transmission lines, sub-stations, plants for manufacture of cement, sugar, textiles and chemicals.

Consultancy services:

Services contracts, involving provision of know-how, skills, personnel and training are categorised as consultancy projects. Typical examples of services contracts are: project implementation services, management contracts for industrial plants, hospitals, hotels, oil exploration, charter hire of rigs and locomotives, supervision of erection of plants, CAD/CAM solutions in software exports, finance and accounting systems.

Supply contracts:

Supply contracts involve primarily export of capital goods and industrial manufactures. Typical examples of supply contracts are: supply of stainless steel slabs and ferro-chrome manufacturing equipments, diesel generators, pumps and compressors.

Projects overseas that Indian companies have secured and executed over the years span various sectors of economic development:

Box 5.1 Sectors

- a. Agriculture & Natural Resources**
 - Fisheries
 - Irrigation & Rural Development
 - Agro Industries
 - Commercial Farming
- b. Energy**
 - Electric
 - Thermal
 - Natural Gas & Oil
- c. Environment**
 - Non conventional sources
- d. Industry**
 - Metals & Minerals
 - Chemicals/ Petrochemicals – fuels, fertilisers, pharmaceuticals
- e. Social Infrastructure**
 - Education
 - Urban Development
 - Housing
 - Health & Population
 - Water Supply & Sanitation
- f. Transport & Communication**
 - Roads & Road Transport
 - Ports & Shipping
 - Railways
- g. Consultancy**
- h. Multisector**

5.2 **WORKING GROUP FOR PROJECT EXPORTS**

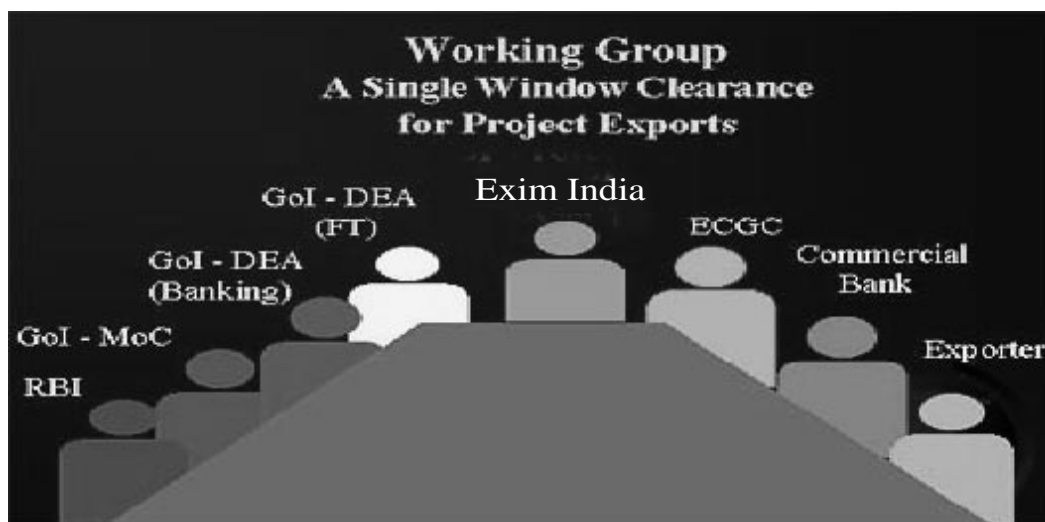
A multi-institutional Working Group has been constituted, consisting of Exim India, ECGC, Reserve Bank of India, Government of India which accords clearance for export contracts.

The Working Group Mechanism for providing such clearances for export of capital, engineering goods and industrial manufacture, turnkey and civil construction projects and consultancy services on cash/ deferred payment, introduced in July 1975 was prevalent till May 2000 when RBI amended the guidelines on Projects and Services Exports. In terms of these new guidelines, requirement of pre-bid clearance for submission of bids for executing project export contracts and exports on deferred payment terms has been dispensed with. The delegation of powers for post-award clearance of project export contracts has also been revised.

Table 5.1 Delegation of Powers

Post-Award Clearance of Export Contracts	
TURNKEY, CONSTRUCTION & SUPPLY BIDS / CONTRACTS:	
Upto Rs. 50 crores	: Scheduled Commercial Banks
Upto Rs. 200 crores	: Exim India
Above Rs. 200 crores	: Working Group
SERVICES BIDS / CONTRACTS:	
On Cash Terms :	
Upto Rs. 5 crores	: Scheduled Commercial Banks
Upto Rs. 10 crores	: Exim India
Above Rs. 10 crores	: Working Group
On Deferred Payment Terms :	
For any amount	: Working Group

Figure 5.1 Working Group for Project Exports



Exim India serves as the focal point and the Secretariat to the Working Group. Meetings of the Working Group are attended by Exim India, ECGC and RBI. The concerned project exporters and their bankers are also associated with the meetings. In case of special projects and contracts of high value, representatives of Government of India (Ministry of Finance & Company Affairs, Ministry of Commerce & Industry) are also invited to participate in the meetings.

The guidelines for Project Exports are being reviewed by Reserve Bank of India to enable further simplification of procedures. The process is sought to be made more project exporter friendly.

5.3 GLOBAL PROJECT OPPORTUNITIES - MULTILATERAL FUNDED PROJECTS OVERSEAS / OTHER OPPORTUNITIES

Indian Project Exporters have significant opportunities to tap the immense potential for project exports and enhance their presence in markets worldwide including South East Asia and SAARC countries, CIS countries, Africa and Latin America besides the Middle East. The world construction market is estimated to be worth US\$ 2.5 trillion

and is dominated by companies from countries such as USA, UK, South Korea, Spain, China, Italy and Japan. Contribution from India to World Construction Industry is marginal at less than 0.2% of the world market. Activities of Indian Project Exporters are concentrated mainly in Middle East and SAARC countries. During the initial years of the 1970s, most of India's project contracts abroad were for civil construction works, concentrated mainly in Iraq and Libya. Developments in the region adversely affected this trend, but Iraq continued to remain a major market for Indian construction contracts till the Gulf War in 1990-91.

Service sector plays an important role across the national and international economy. Service sector covers a wide range of areas and activities. It extends from the traditional areas of transport, communication, finance, insurance, and tourism to emerging areas such as information technology, environmental, health and educational services. Services now constitute more than sixty percent of economic activity in OECD countries. Services have also grown rapidly in the developing countries over the past two decades. In developing countries like India, services constitute today over fifty percent of economic activity.

Multilateral agencies such as World Bank (WB), Asian Development Bank (AsDB), African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD) lend in excess of US\$ 50 billion annually for projects/ programmes in developing countries. A large volume of goods and services procured under these projects offer good scope for Indian exports.

Box 5.2 Multilateral Funded Projects

- *Equal and fair opportunity in procurement to bidders from all eligible countries*
- *Such projects enjoy high priority in country of execution.*
- *Finance is fully tied up or assured before project implementation.*
- *Risks of repatriation of funds are minimised.*
- *Ongoing project monitoring by the funding agencies*

5.4 PROJECT EXPORTS SCENARIO (1990-2000)

Exim India has conducted an analysis of project export bids submitted to Exim India/ Working Group (for Project exports) for clearance, and contracts secured through such bids, during the period 1990-2000.

PERFORMANCE OF INDIAN PROJECT EXPORTS

During the decade (1990-2000),

- ❑ 1268 export bids valued at Rs. 102,694 crores were submitted.
- ❑ Out of the 1268 bids, 418 bids valued at Rs. 18,033 crores were secured with an aggregate success rate of 34% by number and 20% by value.

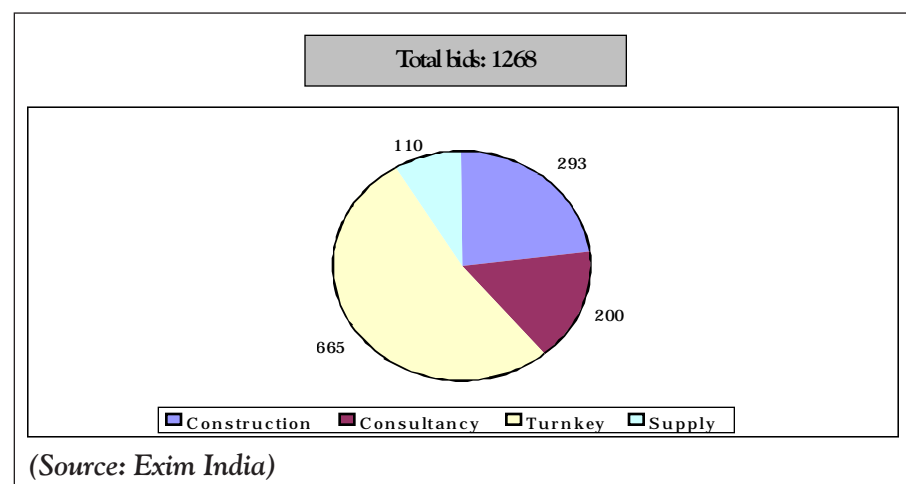
The present analysis is subject to the following:

The bids included in the analysis comprise bids approved by Working Group, Exim India and those for which banks approached Exim India for participation. Data in the analysis do not therefore, cover all the bids submitted from India for product/project exports on cash/deferred payment basis.

5.4.1 ACTIVITYWISE ANALYSIS

- ❑ The largest number of bids were submitted for turnkey projects, followed by construction, consultancy and supplies.

Figure 5.2 Activitywise Bids Submitted (Numberwise)

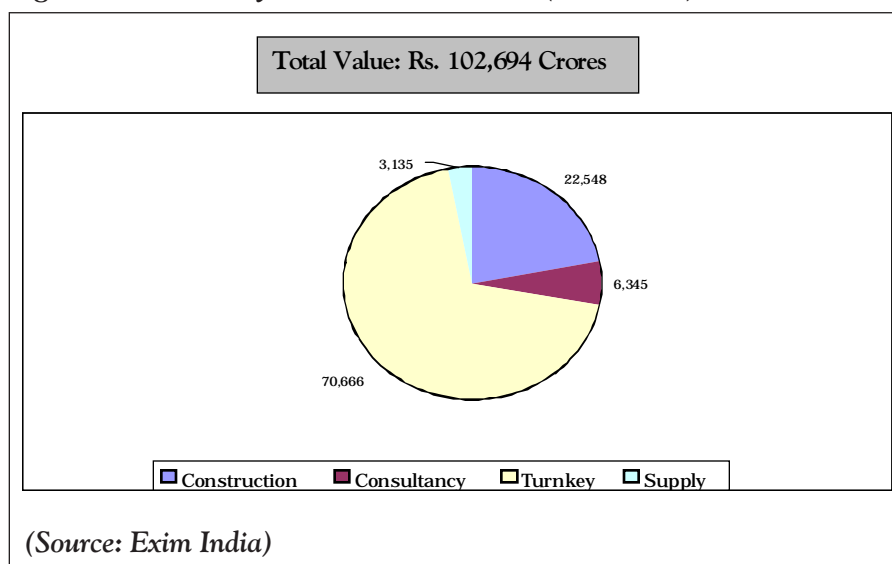


5.4.1.1 Construction Contracts:

Construction contracts involve civil work, steel structural works as also associated equipment supply, erection and commissioning.

- ❑ 293 construction bids valued at Rs. 22,548 crores accounted for 23% by number and 22% by value.
- ❑ Out of the 293 bids, 60 bids valued at Rs. 4,126 crores were secured with an aggregate success rate of 20% number wise and 18% value wise during the decade.

Figure 5.3 Activitywise Bids Submitted (Valuewise)



5.4.1.2 Consultancy Contracts:

Consultancy contracts involve deployment of personnel, furnishing of know-how/skills operation and maintenance services and management contracts.

- ❑ 200 consultancy bids valued at Rs. 6345 crores were submitted, accounting for 16% by number and 6% by value of the total bids submitted during the period.
- ❑ Out of these, 120 bids valued at Rs. 2988 crores were secured with an aggregate success rate of 60% by number and 47% by value during the decade.

5.4.1.3 *Turnkey Contracts:*

Such contracts involve supply of equipment, along with related services like design, detailed engineering, civil construction, erection and commissioning of plant.

- ❑ 665 bids valued at Rs. 70,666 crores were submitted, which accounted for 52% by number and 69% by value of the total bids submitted during the decade.
- ❑ Out of the 665 bids submitted, 173 bids valued at Rs. 9,257 crores were secured, which represented a success rate of 26% number wise and 13% value wise.

5.4.1.4 *Supply Contracts:*

Supply contracts involve export of capital goods and industrial manufactures.

- ❑ 110 bids valued at Rs. 3135 crores were submitted, which constituted 9% by number and 3% by value of the total bids submitted.
- ❑ Out of the 110 bids submitted, 65 contracts aggregating Rs. 1,662 crores were secured, which represents a success rate of 59% by number and 53% by value.

5.4.2 **REGIONWISE ANALYSIS**

- ❑ West Asia emerged as the major market for Indian exporters during the period in terms of total number and value of bids. 495 bids valued at Rs. 46,785 crores were submitted in West Asia. The region accounted for 39% number wise and 46% value wise of the total bids submitted during the decade.
- ❑ Viewed in terms of number of bids, West Asia, being the foremost, was followed by South East Asia & Pacific (282) and South Asia (234). As a proportion of total bids submitted during the decade, South East Asia constituted 22% both by number and by value, South Asia was 18% number wise and 16% value wise.

Figure 5.4 Regionwise Distribution of Bids (Numberwise)

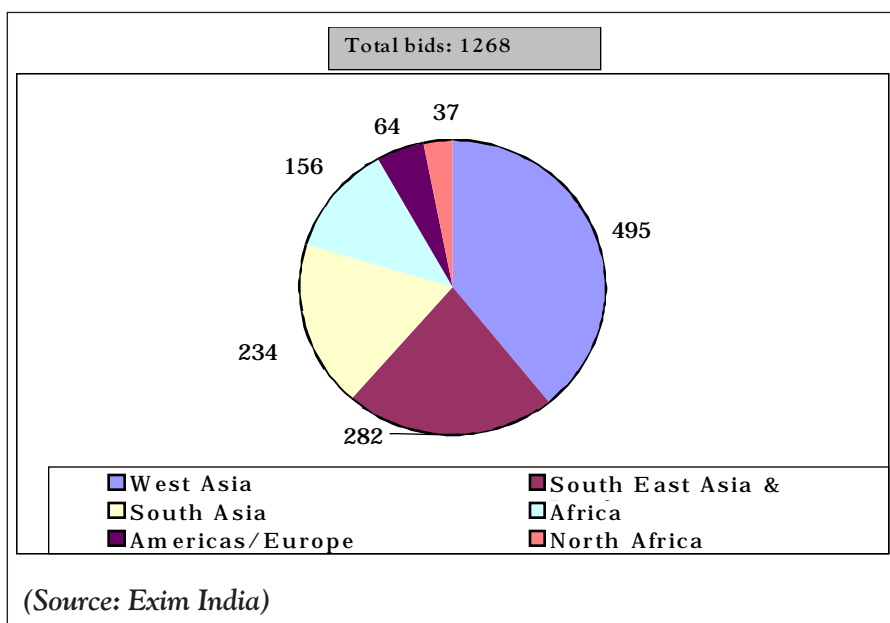
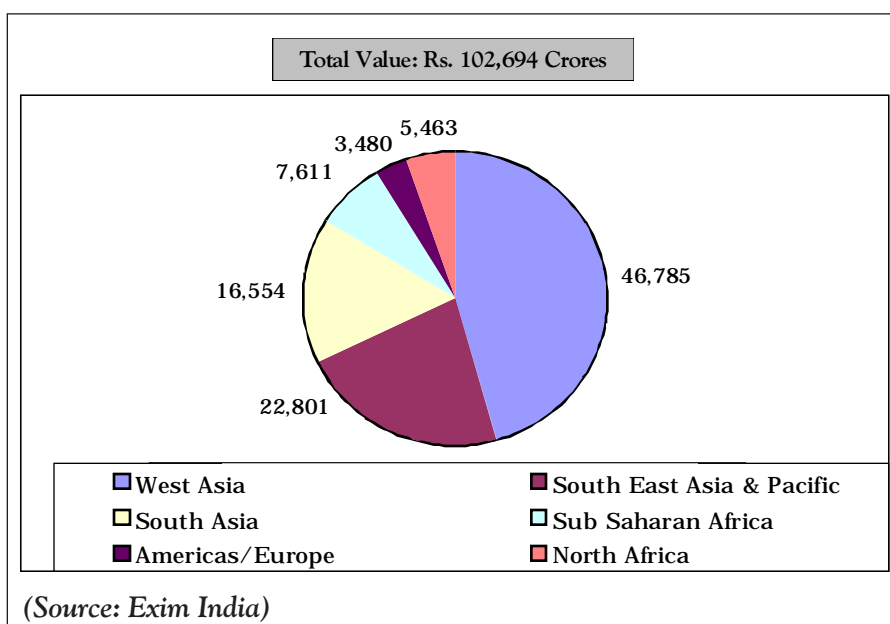


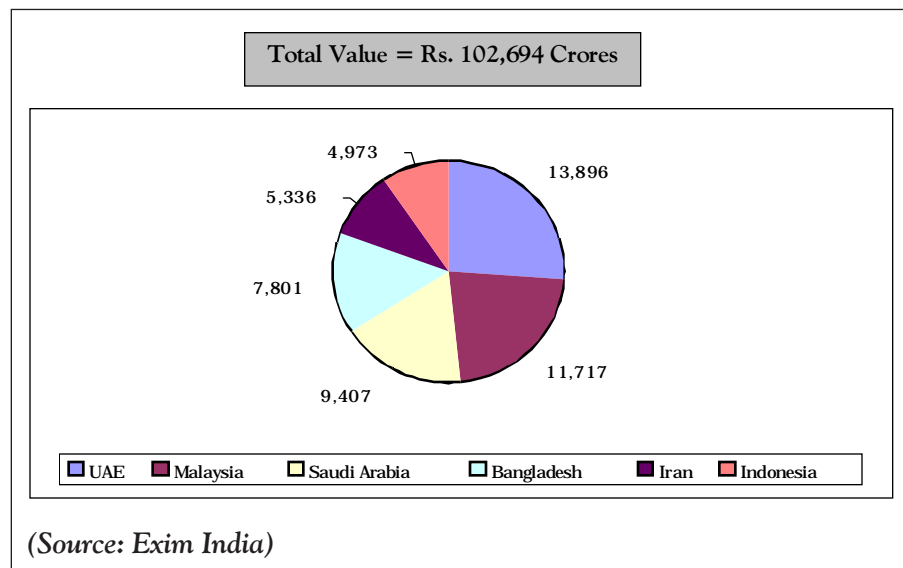
Figure 5.5 Regionwise Distribution of Bids (Valuewise)



5.4.3 DESTINATIONWISE ANALYSIS

- Indian bidders have gained more confidence, expertise and have diversified their markets for project exports, which is evident from the increased participation in terms of number of markets. UAE, Malaysia, Bangladesh, Indonesia, Saudi Arabia and Iran are the most favoured destinations.
- Ranked in terms of number of bids, the principal market for Indian project exports was UAE with 163 bids followed by Malaysia (115) and Bangladesh (112), which accounted for 31% of the total bids during the decade. In terms of value, UAE accounted for 14% of the total value of bids followed by Malaysia (11%) and Saudi Arabia (9%). The top six countries accounted for 45% by number and 52% by value of the total bids during the decade.

Figure 5.6 Country Analysis – Bids Submitted (Valuewise)



5.4.4 EXPORTERWISE ANALYSIS

- ❑ On an average during the decade, bids were made by 42 exporters.
- ❑ The highest number of bids were submitted by the following companies.
 - IRCON International Limited (IRCON) - 150
 - Larsen & Toubro Limited (L&T) - 119
 - KEC International Limited (KEC) - 115
- ❑ The top five exporters accounted for 46% of the total bids. They are:
 - Bharat Heavy Electricals Limited (BHEL)- Rs. 15,202 crores
 - Larsen & Toubro Ltd. (L&T) - Rs. 13,478 crores
 - Telecommunications Consultants India Limited (TCIL) - Rs. 11,568 crores
 - IRCON International Limited (IRCON) – Rs. 10,827 Crores
 - KEC International Limited (KEC) – Rs. 10,137 Crores
- ❑ The top five exporters accounted for 60% of the total bids.

Figure 5.7 Exporters Analysis – Bids Submitted (Numberwise)

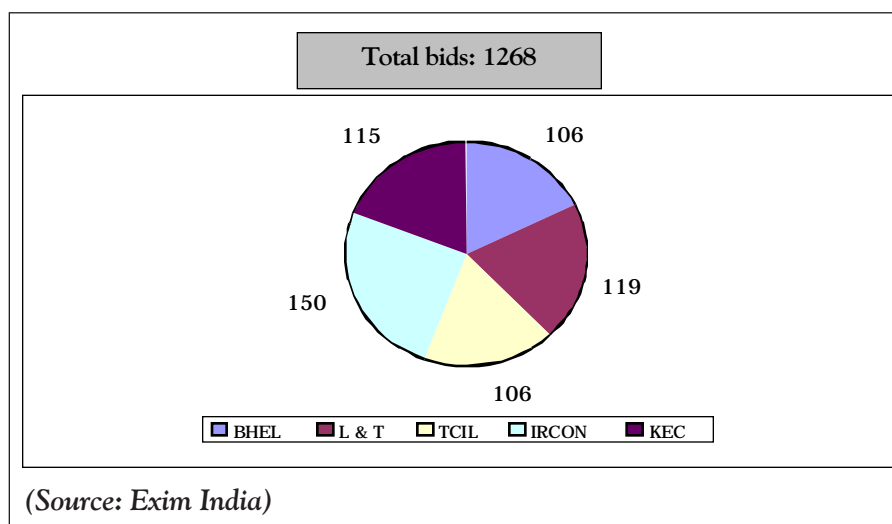
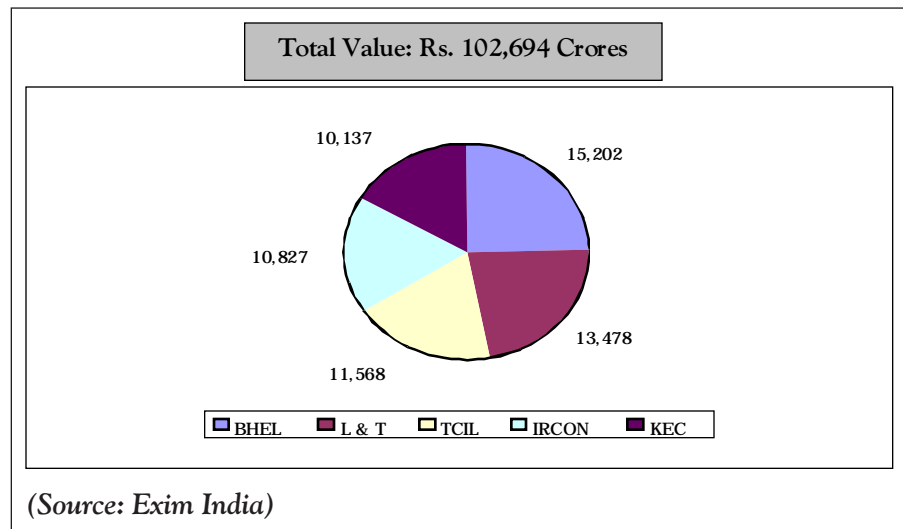
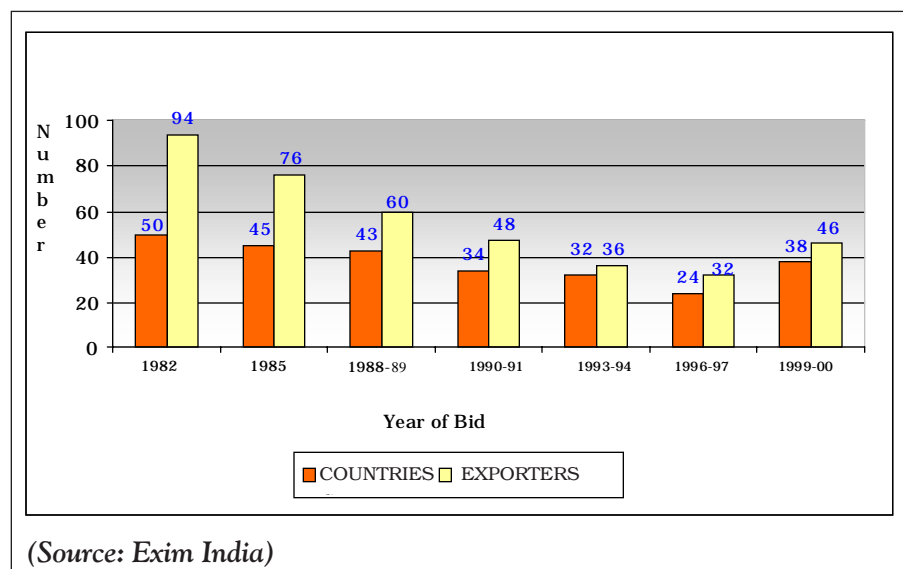


Figure 5.8 Exporters Analysis - Bids Submitted (Valuewise)



The figure below highlights the movement of the number of countries where bids were made and number of Indian exporters who submitted bids:

Figure 5.9 Countries & Exporters (Numberwise)



5.4.5 PERFORMANCE OF INDIAN COMPANIES IN MULTILATERAL FUNDED PROJECTS OVERSEAS (MFPO)

5.4.5.1 *Background:*

The present analysis also reviews performance of Indian companies in Multilateral Funded Projects Overseas (MFPO) during the period (1990-2000).

- ❑ 394 bids aggregating Rs. 30,146 crores were submitted for projects funded by multilateral agencies.
- ❑ The bids submitted under MFPO accounted for 31% number wise and 29% value wise of the total bids submitted during the decade.
- ❑ Out of the 394 bids submitted, 77 bids valued at Rs. 3,391 crores were secured, reflecting a success rate of 20% by number and 11% by value.
- ❑ The contracts secured under MFPO constituted 18% by number and 19% by value of the total contracts secured during the decade.

5.4.5.2 *Performance of Indian companies in World Bank Funded Projects:*

- (a) World Bank data for FY2001 related to payments to India (as shown in **Table 5.2**) vis-à-vis other Supplying countries (USA, Japan, Germany, France, Canada and China) for **foreign** procurement of equipment, civil works and consultancy services reveals that the total disbursement to India has been only 1.21 percent of the total disbursements for projects loans. There is scope for Indian companies to enhance their prospects of securing more contracts in World Bank funded projects.

Table 5.2 Procurement Statistics for Foreign Procurement in World Bank Funded Projects

**Fiscal 2001
(in US\$ million)**

Supplying country	Equipment		Civil works		Consultants		All other goods		Total disb.	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
India	26	2.07	<0.5	<0.05	7	1.23	<0.5	<0.05	33	1.21
Brazil	4	0.36	2	0.30	2	0.36	<0.5	0.17	9	0.33
China	29	2.34	116	16.67	7	1.22	<0.5	0.06	152	5.63
France	87	6.99	52	7.48	36	6.50	3	1.59	179	6.60
Germany	154	12.36	33	4.70	37	6.67	12	5.63	235	8.70
Japan	153	12.27	37	5.23	5	0.82	1	0.69	195	7.21
Korea	28	2.21	51	7.27	<0.5	<0.05	8	3.65	86	3.17
Malaysia	2	0.18	4	0.55	<0.5	0.08	0	<0.05	7	0.24
United Kingdom	101	8.15	18	2.53	80	14.35	1	0.55	200	7.39
United States	134	10.78	5	0.66	93	16.78	3	1.64	235	8.70

(Source: Annual Report of World Bank 2001)

- (b) World Bank data for FY2001 related to payments to India for local and foreign procurement (as shown in **Table 5.3**) shows that India's share in *foreign* procurement is marginal in comparison to local procurement. Clearly, Indian companies have demonstrated capabilities to secure contracts in India under international competitive bidding conditions. This, however, does not get reflected into contracts overseas although the nature of such projects, the sectors to which these pertain and the skills and expertise required are well-within the capabilities of Indian project exporters. Thus, increased overseas bid participation is essential.

Table 5.3 Comparison of World Bank Payments to India for Local and Foreign Procurement

(in US\$ million)

<i>Fiscal Year</i>	<i>Local Procurement</i>	<i>Foreign Procurement</i>	<i>Total amount</i>	<i>% of total disbursements</i>
2001	1274	33	1306	7.56
2000	1152	31	1183	6.39
1999	1285	107	1392	5.75

(Source: Annual Reports of World Bank 1999,2000 & 2001)

- (c) The World Bank sectoral and regional breakup analysis of World Bank lending (1999-2001) is detailed at **Annexure II**. **Annexure III** and **Annexure IV** detail the lending patterns of African Development Bank and Asian Development Bank. A summary of bids submitted and contractual information of Indian companies for the last five years (1995-2000) in World Bank funded projects is provided at **Annexure V**.

5.5 REASONS FOR LOSS OF BIDS

Although Indian project exporters have executed a number of projects in diverse markets overseas (as shown at *Annexure VI*), however, a quantum increase in project exports can be achieved if constraints faced by Indian companies are adequately addressed.

The reasons for loss of bids include:

- Non-competitive price
- Deviations from specifications
- Credit terms
- Delivery schedules
- Others such as:
 - client's preference for known/established exporters,
 - influence of local associates
 - relations with the host country
 - cancellation of bids

5.5.1 ANALYSIS OF LOSS OF BIDS

5.5.1.1 An analysis carried out by Exim India on mortality rate of bids during the decade (1990-2000) reveals:

- ❑ The mortality rate of bids made during the decade (1990-2000) was 63% in terms of number and 72% in terms of value.
- ❑ There were 794 unsuccessful bids valued at Rs. 74,056 crores during 1990-2000.
- ❑ Out of the 794 bids, 233 bids valued at Rs. 18,422 crores were for construction, 80 bids valued at Rs. 3357 crores were for consultancy, 436 bids valued at Rs. 50,804 crores were for turnkey and 45 bids valued at Rs. 1473 crores were for supply contracts.
- ❑ The average value of lost bids during the decade (1990-2000) was Rs. 93 crores.

5.5.1.2 An analysis for loss of bids, carried out by Exim India, reveals uncompetitive price as the principal reason for loss of bids. Out of the 794 bids, 371 bids valued at Rs. 43,821 crores were lost due to price which constituted 47% in terms of number and 59% in terms of value of the total bids lost during the decade (1990-2000).

Indian bidders in recent years have cited the following:

- ❑ Indian bidders are placed in the category of the ten lowest bidders but contracts have been lost on an average with a price difference of 10% to 25%.
- ❑ Some bids were lost despite Indian bidders being lowest or at second lowest rank (with 1% to 5% price difference) due to competitors' advantageous position in terms of the influence wielded with project authorities to secure the contracts especially those that were funded from the buyer's own resources.
- ❑ The dominant role of uncompetitive price as a reason for loss of bids suggests that Indian project exporters need to structure their bids more carefully on the basis of rigorous planning including accessing detailed advance information on the projects and developing strategies for sourcing of project components.

5.6 CONSTRAINTS FACED BY INDIAN PROJECT EXPORTERS

Some of the constraints perceived by Indian project exporters are as follows:

- ☐ Scope to secure large volume turnkey contracts in regions such as Middle East and Asia, necessitate bids being accompanied by packages comprising low cost credits and extended credit terms. This is possible only with Government support and through strengthening of institutions purveying export credit..
- ☐ Although, Indian Project Exporters are technically competent and have demonstrated capabilities, the brand image of India, as a significant project exporter, is yet to be well-established.
- ☐ A multi-pronged coordinated approach involving appropriate institutional support and focussing on specific projects/ markets, has yet to be developed. Consortia approach should be given an impetus by both government and industry.
- ☐ There is a need for Indian consultants to have enhanced presence in thrust markets at early stages of the planning process. Higher success rate in securing consultancy contracts would have a multiplier effect for securing downstream turnkey and construction contracts as well as supply contracts.
- ☐ The financial packages available from the Indian financial system are at times considered not to be competitive enough. Exim India has also compiled data, where Indian companies were unable to pursue business opportunities due to lack of attractive financial packages. Stiff competition is offered by other countries, including Chinese and Korea, who arrange financing at more competitive terms

- ❑ ECGC charges of premium for counter guarantees and risk insurance, being higher than the Competitors, affects adversely the cost competitiveness of Indian Project Exporters. An analysis of proposals of value more than Rs. 100 crores received during the last year, i.e., October 2001-September 2002 establishes that 38 such proposals of value amounting to Rs. 9000 crores covered only 17 countries and 14 exporters.
- ❑ ECGC is considered to have limited risk taking capability to support large value project exports, e.g. infrastructure projects overseas – BOT, BOO projects and projects in marginal risk countries.
- ❑ The world market for power projects is dominated by few world-renowned large integrated electrical engineering companies which acts as an entry barrier for Indian companies.
- ❑ In case of Turnkey contracts, specifications at times, stipulate the use of equipment of certain international specifications making it mandatory for the Indian exporter to source it through third country imports at a premium. These third country imports make the cost of Indian turnkey projects uncompetitive.
- ❑ Price competitiveness owing to cheaper technical manpower is continually eroding since Indian companies increasingly face competition from companies, for instance, from China in their segments.
- ❑ Time lags in receipt of information, uncertainties relating to the project parameters, recourse to imported raw materials, completion time, get built up in the form of cushions, rendering the total price for the contract uncompetitive.
- ❑ Inter American Development Bank (IADB) funds projects worth about US\$10 billion per annum in Latin and Central America. Indian companies cannot participate in these projects, as India is not a member of IADB.

Box 5.3 Typical Benefits of Consortium Approach

<i>Marketing</i>	<i>Organisation</i>	<i>Project Execution</i>
<p>Enhance the competitive position of the firms</p> <p>Foster relationships with new clients and new markets</p> <p>Foreign partner gets access to local markets, critical knowledge of the geographical area, cultural demands and applicable regulations.</p> <p>Local firm gets enhanced reputation, can retain core customers in markets not served by it earlier.</p> <p>Make partners cost effective in local markets</p> <p>Leads to new projects and increases firms market share.</p> <p>Meets legal requirements of host country for international bidding</p>	<p>Allows a firm to be active in areas that it otherwise would not be involved in, thereby enhancing the company's culture.</p> <p>Employees gain technical, social and personal experiences that enhance job satisfaction, team morale and cross cultural experience.</p> <p>A fundamental concept of an alliance consortium is to build upon the strengths and skills of its members. It combines the resources and speciality skills of two or more firms. This allows the rapid and efficient introduction of new concepts and processes (such as TQM).</p> <p>Reduces the interface inefficiencies and costs associated with the management of</p>	<p>Servicing core customers in international locations become possible.</p> <p>Partners create new opportunities to secure capital and bonding capacity. This is critical in international projects, where financing assistance is becoming a competitive advantage.</p> <p>Allows the partners to share risks as well as insurance and bonding requirements.</p> <p>Lower overhead costs by eliminating the time consuming bidding process and duplicate effort.</p> <p>The highly technical nature of projects and sophisticated facilities demanded today might require consortium to access specialized technology or develop technical areas.</p> <p>Cycle time of projects are reduced through continuous engineering in different regions of the world.</p>

<i>Marketing</i>	<i>Organisation</i>	<i>Project Execution</i>
<p>Provides effective interpretation of local regulation, procedures and customs that allows efficient navigation procedures and customs that allows efficient navigation through unfamiliar bureaucracies.</p> <p>Creates good understanding of each other's needs, preferences and constraints promoting the efficient adoption of resources.</p> <p>Technology becomes affordable when shared by multiple alliance partners.</p>	<p>multiple contractors and agencies.</p> <p>Creates access to local labour, which may be less expensive and more efficient under particular conditions.</p> <p>Increases overall quality of work and productivity. Learning curves are reduced for such things as understanding of regional codes, regulations and labour issues.</p> <p>Enhances company diversity and flexibility by sharing resources on large projects.</p>	<p>Forming consortiums with material suppliers can ensure consistent quality, reduce cost and improve quality, reduce cost and improve delivery.</p>

6.

Export Credit Agencies Worldwide – Support Facilities

6.1 **BACKGROUND**

A typical Export Credit Agency (ECA) acts as an export financing institution, a commercial export insurer, a foreign investment catalyst and a project finance expert. ECAs differ in role and function, resources and increasingly in ownership. However, even if they are not state-owned, they are backed by the respective national governments, particularly for supporting exports on medium and long term credit basis. With the backing of their governments, ECAs are able to take on higher risks and on longer terms than commercial banks. For instance, large projects that require large credit and carry high investment risk would simply not be viable without the involvement of ECAs. Official export credit that ECAs provide supplement commercial financing, enhancing the workings of the market.

ECAs may be classified agencies:

- (i) providing only export credit with export credit insurance from another agency.
- (ii) providing both export credit and export credit insurance.

The rationale for establishment of ECAs stems from the following factors:

- (i) Enhanced capability to export capital and engineering goods as also project exports. Buyers may seek deferred payment terms to tailor their payments in conformity with the cash flow generated by production from such imported capital goods.
- (ii) Developing countries are major importers of such product and project exports, and their balance of payments position necessitates deferred payment terms.
- (iii) Spread of industrialization has meant intensified competition in international markets for manufactured products, which calls for the provision of competitive credit on extended payment terms.
- (iv) As exports are seen as a national priority goal in most countries, ECAs are considered as institutions which catalyze export expansion through a variety of financing activities.

EXPORT FINANCE: INSTITUTIONAL STRUCTURE

Typically, the institutional structure for export finance in a country would be as follows:

Table 6.1 Institutional Structure for Export Finance

Institution	Role
Central Bank	<input type="checkbox"/> Ensuring through conduct of monetary policy, adequate liquidity for financing exports <input type="checkbox"/> Administering interest rates / interest equalisation schemes. In some countries, Governments directly provide the support.
Commercial Banks	<input type="checkbox"/> Providing short term finance for exports typically upto 6 months / 12 months
Exim Bank	<input type="checkbox"/> Providing medium and long term finance for exports typically : 1 year - 15 years
Export Credit Insurance Agencies	<input type="checkbox"/> Providing export credit insurance to exporters, guarantees to banks

6.2 COMPARISON OF SELECT ECAS

6.2.1 OWNERSHIP & CAPITAL STRUCTURE

6.2.1.1 Background:

ECAs are generally considered as institutions for purveying export credits with a mission to promote national exports. Majority of ECAs, which provide export credit finance, including Exim India, are fully owned by their national governments.

ECAs, typically, are

- ☐ State owned or backed by their respective national Governments
- ☐ Government Department or an entity directly/ indirectly owned by the Government
- ☐ Private institutions administering accounts for or on behalf of the Government

Select ECAs considered for the purpose of the analysis are :

Country	ECA	Acronym
India	Export-Import Bank of India	Exim India
	Export Credit Guarantee Corporation of India Limited	ECGC
Brazil	BNDES-Exim	Exim Brazil
	Seguradora Brasileira de Credito à Exportação (Brazilian Export Credit Insurance Company).	SBCE
People's Republic of China	The Export-Import Bank of China	Exim China
	People's Republic of China Export and Credit Insurance Corporation	SINOSURE
France	Compagnie Francaise d'Assurance pour le Commerce Extérieur	COFACE
Germany	Hermes Kreditversicherungs-Aktiengesellschaft	HERMES
Japan	Japan Bank for International Cooperation	JBIC
	Nippon Export and Investment Insurance	NEXI
Republic of Korea	The Export-Import Bank of Korea	Exim Korea
	Republic of Korea Export Insurance Corporation	KEIC
Malaysia	Export-Import Bank of Malaysia Berhad	Exim Malaysia
	Malaysia Export Credit Insurance Berhad	MECI
UK	The Export Credits Guarantee Department	ECGD
USA	Export-Import Bank of the United States	US Exim

Table 6.2 Ownership & Capital Structure

(in US\$ million)				
ECAs	OWNERS	Share Capital	Net Worth	Total Assets
Exim India	Government of India	133	380	1585
Exim Brazil	Government of Brazil	65	80	385
Exim China	Government of People's Republic of China	603	658	10995
COFACE, France	Natexis Banques Populaires	46	479	1849
	Credit Agricole			
HERMES, Germany**	Allianz AG, Zurich	46	99	712
	Allgemeine Versicherung	3		
	Minority Shareholder	3		
JBIC, Japan	Government of Japan	56386	62786	182044
Exim Korea	Republic of Korean Government	1023	2117	8336
	Bank of Republic of Korea	878		
	Korean Development Bank	117		
Exim Malaysia	Bank Industri & Teknologi	79	41	779
ECGD, UK	HM Treasury	7301	5814	5814
US Exim	Government of the United States of America	1000	(642)	15313

(Source: Annual Reports 2001 of the select ECAs)

(**) Hermes has since merged with Euler in January 2002 and has become the biggest insurance grouping in the world.

6.2.1.2 Observations :

- ☐ ECAs of Brazil, People's Republic of China, Japan, USA, which provide export credit finance are fully owned by their respective governments, as in the case of India.
- ☐ Exim Bank of Republic of Korea, which also provides export credit finance is owned by the State to the extent of 61 percent. The balance is held by Bank of Republic of Korea, the Central Bank.
- ☐ In terms of export credit insurance, ECAs of Germany and France are in the private sector:
 - HERMES, Germany
 - COFACE, France

6.2.2 Range of Products/Services

6.2.2.1 Background:

With increasing globalisation, ECAs are augmenting measures to facilitate and thereby promote exports, and now not only perform their traditional role of providing export credits but also offer a gamut of other products.

Table 6.3 Range of Products for Select ECAs

ECAs	Credit Insurance	Guarantee	Export Project Finance	Buyers' Credit	Working Capital	Lines of Credit	Leasing	Overseas Investment Finance	Overseas Equity Participation	Suppliers Credit	Term Loan for EOUs
Exim India		✓	✓	✓	✓	✓		✓	✓	✓	✓
Exim Brazil				✓						✓	
Exim China				✓						✓	
COFACE, France	✓	✓									
HERMES, Germany	✓	✓									
JBIC, Japan		✓	✓	✓				✓	✓		
Exim Korea			✓	✓				✓		✓	
Exim Malaysia				✓						✓	✓
ECGD, UK	✓	✓									
US Exim	✓	✓	✓		✓		✓				

Source: Annual Reports 2001 of the ECAs

6.2.2.2 Observations :

- Some of the other products offered by various ECAs besides the traditional programmes of export credit are shown as under:
 - JBIC invests in equity in overseas projects of Japanese companies.

- *US Exim Bank also operates in the area of leasing of capital equipment and related services.*
- *Exim Bank of People's Republic of China administers Chinese government concessional loans and onlends foreign government loans.*
- ❑ *ECAs of developing countries offer finance to export oriented units.*
- ❑ *Support and additional activities*

Many ECAs are also involved in promotional activities.

Box 6.1 Support Activities undertaken by ECAs

- ❑ *JBIC's Research Institute for International Investment and Development undertakes research related to economies and exports. The Bank's Overseas Investment Consulting Office provides a range of services to Japanese companies engaged or interested in investments abroad.*
- ❑ *Exim Korea's Overseas Research Institute provides information on investment environment abroad.*
- ❑ *Coface Group of France offers a full range of credit information products to help businesses exposed to credit risks. They range from traditional commercial information including background and ownership structure of companies and financial information; issuance of credit ratings and surveys of industry trends and development trends.*
- ❑ *ECGD, UK offers exchange risk cover to companies seeking to penetrate foreign markets.*
- ❑ *Hermes, Germany provides risk management solutions, debt recovery services and credit rating services to financial service enterprises and insurers.*
- ❑ *Exim India provides information and advisory services to Indian exporters enabling them to evaluate international risks, export opportunities and enhance competitiveness.*

- There is a major difference in the range of programmes operated by ECAs in developed countries (excluding Japan) and those in Japan, Republic of Korea, and developing countries. The latter have gone beyond the traditional export credit programmes and operate a much wider range of facilities.

Box 6.2 Additional Facilities offered by ECAs in Developing Countries

Overseas investment credit	This enables national companies to invest in equity in ventures overseas or to provide loans to such joint ventures. The purpose of such credits is not only to finance exports especially of capital goods needed by the venture, but is also for strategic considerations like developing overseas markets through the venture, and importation of raw materials for the national economy through the venture. Such overseas investment credits are offered by ECAs in Japan, Republic of Korea, India, Turkey and Malaysia.
Import Credits	While the traditional role of ECAs has been to promote exports, ECAs in Japan, Republic of Korea and India also provide facilities involving financing of imports. However, there is a major difference in the motivation for financing of imports between the ECA in Japan and those in other countries. The consistently large surplus in the Japanese balance of payments position (arising from its export success) had led to demands from other developed countries that Japan should take effective steps to open its markets to imports from their countries. Import credits by the Japanese Exim Bank constitute one measure adopted by Japanese policy makers to encourage imports by Japanese corporations from other countries.

Advisory and Promotional Services

While financial facilities are the main operations of the ECAs, many of them are also involved in promotional activities. Promotional activities by some of the ECAs like JBIC, Exim India and Exim Korea are briefly described below:

JBIC- Exim Japan's Research Institute for International Investment and Development undertakes research related to economies and exports. The Bank's Overseas Investment Consulting Office provides a range of services to Japanese companies engaged or interested in investments abroad. Along with information regarding the investment environment in various countries and financial consultation, the office also provides advice on a full range of overseas business transactions, ranging from procedures for engaging in foreign investment to methods for using public funds in trade and foreign investment. JEXIM carries out knowledge transfer activities with various developing and transitional nations.

Exim India provides information and advisory services to exporters to enable them to evaluate international risks, export opportunities and competitiveness. These include country studies, merchant banking services, advice on international marketing and data to enable effective participation in opportunities offered by projects financed by multilateral institutions. Research and analysis is carried out on specific industry subsectors with export potential and international trade related subjects. Brief details of the Bank's promotional services are provided below:

Country Studies and Analysis: The Bank's team of economists and financial analysts assesses economic, political, currency and credit risks

	<p>and maintains data in a computerised databank. Information on export opportunities is also provided to exporters.</p> <p><i>Export Marketing:</i> The Bank has structured facilities to assist individual exporters and export houses to undertake export marketing programmes.</p> <p>Republic of Korea Exim Bank's Overseas Research Institute provides Republic of Korean firms information on investment environment abroad. The Bank handles the Economic Development Co-operation Fund (EDCF) to promote co-operation with developing countries.</p>
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[Source: Annual Reports of respective ECAs]

- ❑ The ECAs offer various financing facilities to fulfil their principal objective of promoting national exports through the export financing mechanism. While, in generic terms, there are common features in the types of programmes operated by the ECAs, there are also important differences in the range of facilities offered. This is particularly evident while comparing ECAs in developed countries and those in the newly industrialised economies and developing countries.
- ❑ The importance attached to export promotion by governments in developing countries is an important explanatory factor for the greater share of ECAs in developing countries in financing their national exports. Thus, developing country ECAs are expected to be strongly involved in accelerating exports by offering diverse schemes as well as through energetic business promotion efforts. Moreover, most of the developing country ECAs are also involved in short term export financing and therefore cover a wider range of products compared to industrialised country ECAs, which focus primarily on capital goods and machinery.

Box 6.3 Facilities offered by Select ECAs.

Exim Bank, USA	Exim Bank, Republic of Korea	Exim Bank, Malaysia	Exim India
<p>Direct Loans Medium and long-term direct loans enable U.S. exporters to provide foreign buyers with competitive, fixed-rate financing for the purchase of U.S. capital goods and services. Medium-term loans are under \$10 million on repayment terms typically of two to five years (going up to seven-and-a-half years). Long-term loans are usually for \$10 million or more on repayment terms typically from 7 to 12 years.</p> <p>Project Financing Project finance is available to U.S. exporters or</p>	<p>Export Credit Export Credit accounts for the lion's share of the Bank's total credit amount. This credit is mainly categorised into three types: export loan, direct loan, and relending facility. Export Loan is extended to Republic of Korean exporters as a supplier's credit. Direct Loan is provided to foreign entities as a buyer credit. Both loans are available in foreign currencies or Korean won up to 100% of the export contract price, less a minimum 15-20% cash payment, on a medium and long-term basis.</p>	<p>Buyer's credit facility Buyer's credit facility is offered to the foreign firms for procurement of Malaysian manufactured goods.</p> <p>Overseas Investment Credit facility This facility is extended to Malaysian companies, both wholly-owned and joint ventures, investing abroad in the fields of manufacturing, construction, infrastructure, and other development projects.</p> <p>Supplier's credit facility i) Pre-shipment supplier's credit:</p>	<p>Credit Facilities for Indian Entities Supplier's Credit enables Indian exporters to extend term credit to overseas importers, of eligible Indian goods.</p> <p>Finance for Consultancy and Technology Services enables Indian exporters of consultancy and to extend term credit to overseas importers.</p> <p>Pre-shipment Credit enables Indian exporters to buy raw material and other inputs for export contracts.</p> <p>Finance for Deemed Exports enables Indian Companies to meet cash flow</p>

<p>project sponsors that need financing for exports to large foreign infrastructure, oil and gas, and mining projects. The Bank offers any combination of direct loans, comprehensive guarantees, or political-risk-only guarantees on projects for both pre-completion construction loans and post-completion financing.</p> <p>Commercial Aircraft Financing Aircraft financing assists U.S. manufacturers or exporters in the export of new or used U.S. manufactured commercial aircraft (including helicopters) through Exim Bank's loan,</p>	<p>Relending Facility is a line of credit extended to creditworthy banks in foreign countries to assist buyers in obtaining credit from their local banks to purchase capital goods.</p> <p>Technical Service Credit This is extended to Korean firms to facilitate the supply of technical services.</p> <p>Overseas Investment Credit This is provided to support investment abroad in the form of capital subscription, acquisition of stock, and extension of long-term credit.</p>	<p>Financing is available to the Malaysian manufactures/exporters for the production of goods meant for exports. It finances part of their working capital requirement and it is provided for the processing, manufacturing and packaging of goods for exports.</p> <p>ii) Post-shipment supplier's credit: This facility is extended to the Malaysian exporters to enable them to provide competitive credit terms to foreign buyers for the export of Malaysian goods.</p> <p>Export of services This facility is provided for a maximum period</p>	<p>deficits of contracts secured in India and financed by multilateral funding agencies.</p> <p>Finance for Export Oriented Units enables the Indian project exporters to meet expenditure for execution of overseas project export contracts.</p> <p>Buyer's Credit enables overseas buyers to import eligible goods from India on deferred payment terms.</p> <p>Lines of Credit enables overseas financial institutions, foreign governments and their agencies to onlend term loans to finance import of eligible goods from India.</p>
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<p>guarantee, and export credit insurance programs.</p> <p>Environmental Exports Financing With US-Exim Bank's environmental export financing, U.S. exporters of environmentally beneficial technology, equipment, and services, as well as exporters participating in environmentally beneficial projects, can offer financing to their foreign customers through direct loans as well as export credit insurance, loan guarantees, and working capital loan guarantees.</p>	<p>Overseas Project Credit Firms must procure from Republic of Korea most of the materials required for installing, expanding, and operating the equipment or facilities abroad.</p> <p>Major Resources Development Credit This credit is provided for investing and acquiring mining and other rights abroad.</p> <p>Import Credit Import Credit is provided to Korean importers for the importation of essential materials and major resources.</p>	<p>of five years and aims at assisting Malaysian nationals in exporting their professional services in the form of consultancy, technical skills and other expertise.</p> <p>Export Credit Refinancing (ECR) Scheme: This facility aims to promote the export of manufactured products, agricultural products and selected primary commodities that have significant value-addition and utilise local indigenous resources, via the provision of credit facilities as a supplemental source of fund, prior to or upon shipment of the products.</p>	<p>Other facilities include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Export Product Development Finance <input type="checkbox"/> Overseas Investment Finance <input type="checkbox"/> Export Marketing Finance <input type="checkbox"/> Working Capital Term Loan <input type="checkbox"/> Direct Equity Stake in Indian ventures abroad <input type="checkbox"/> Programme for Software Product Development <input type="checkbox"/> Programme for financing R&D activities <input type="checkbox"/> Guarantee Facility <input type="checkbox"/> Bulk Import Finance
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6.2.2.3 Services offered by ECGC

The range of services provided by ECGC matches other insurers barring in only one area which is domestic credit insurance. Apart from providing credit insurance for export transaction, ECGC also offers cover for pre-shipment and post-shipment credits extended by banks and financial institutions. ECGC also covers project exports and issues counter guarantees to cover guarantees issued to overseas beneficiaries. Overseas Investment Insurance is available to cover FDIs flowing out of India. ECGC also covers the Lines of Credit and Buyers Credit extended by Exim India or any other financial institution. One of the recent products is maturity factoring to enable easy finance to exporters and comfort to bankers. Credit Information Service in alliance with D&B is also available on overseas importers to Indian exporters. ECGC will also be offering services like receivables management, debt collection.

- The exposure of all counterparts of ECGC to high risk markets and the new businesses are very large. Even the African markets are included in which India's presence is already being fortified. In countries like Bangladesh, Indonesia, it is observed that export credit insurance agencies such as SINOSURE, EFIC, have taken much larger commitments and exposure as compared to ECGC.

Table 6.4 Comparison in Performances of Overseas Counterparts of ECGC

Counterpart of ECGC	Business Performance
EFIC, Australia	New business on Govt's National Interest Account : US\$ 800 mn Medium Term business operates as a Statutory Corporation, owned by Commonwealth of Australia.
SINOSURE, Republic of China	Exposure: US\$ 3.9 bn Claims: US\$ 39.5 mn New Business: 762 RMB = 92 mn US\$
COFACE, France	Premium 212 mn Euro Claims: 319 mn Euro
HERMES, Germany	Volume of exports covered : 16563 mn Euro Deficits accrued: 12984 mn Euro Amounts surrogated to govt.: 18577 mn Euro
NEXI, Japan	Insured 11,042 US\$ mn (70% to Asia including Azerbaijan, Uzbekistan, Kazakhstan, Turkmenistan etc.) Claims US\$ 292.58 mn (mainly to Indonesia)

[Source: ECGC]

6.2.3 GOVERNMENT SUPPORT

6.2.3.1 Background:

Certain ECAs, with the funding by their governments, provide exclusive support to their national exports by extending credit at competitive costs ensuring that their national exports do not suffer for want of competitive credit.

Interest differential/ equalisation is met through Government support in many cases.

Table 6.5 Interest Equalisation Support by Various ECAs

Country	Institution	Export Credit support
Austria	OeKB	<ul style="list-style-type: none"> Provides export financing on concessional terms.
Brazil	Banco do Brasil	<ul style="list-style-type: none"> Administers PROEX which provides export credit as Govt. agent using treasury resources & administers int. rate equalisation system by treasury resources
China	Exim Bank of China	<ul style="list-style-type: none"> Policy bank of Government of China Not bound by OECD consensus.
France	Natexis Banque (formerly known as BFCE)	<ul style="list-style-type: none"> Manages interest rate equalisation scheme on behalf of French Treasury.
Germany	KFW	<ul style="list-style-type: none"> Administers interest rate support schemes from German Government funds for aircraft and ship financing.

Project Exports

Italy	Societe Italiana Per le Imprese all' Estero (Simest)	<ul style="list-style-type: none">• Government owned• Provides interest subsidy Interest Make up Agreements with Banks.
Japan	Japan Bank for International Cooperation (JBIC)	<ul style="list-style-type: none">• Provides export loans in Japanese Yen @ 1.4% p.a. which is the current CIRR for JPY.
Netherlands	SENDER	<ul style="list-style-type: none">• Provides export finance at CIRR via the Export Financing Subsidies Facility (EFF).
Spain	Instituto de Credito Oficial (ICO)	<ul style="list-style-type: none">• Government owned.• Provides interest subsidy to banks for export credit.

[Source: Annual Reports of respective ECAs]

Box 6.4 Interest Differential/ Equalisation Support to Export Credit Agencies

Natexis Banque of France	Brazilian Model of Support System	ECGD UK	Exim Bank of Korea	JBIC
Natexis Banque (formerly known as BFCE) manages an interest rate equalisation scheme on behalf of French Treasury. This programme is available to French commercial banks extending COFACE insured export credit under the OECD guidelines. Natexis Banque stabilises export credits on behalf of the treasury by reimbursing the difference between a reference rate (three months PIBOR for credits in French Francs and six month LIBOR for credits in foreign currencies) plus the Bank margin and the fixed rate charges by commercial banks in accordance with the OECD arrangement.	<p>The Brazilian Government operates, through Banco do Brasil, an elaborate program for supporting Brazilian exports known as PROEX (Export Financing Program), using National Treasury resources. The main purpose is to finance viable Brazilian exports, with emphasis on equipment and machinery products, which require medium and long term financing. The PROEX entails.</p> <p><u>Financing using Brazilian Treasury resources:</u></p> <p>Banco de Brasil acts as the Agent of the Brazilian Government.</p>	All funds provided to ECGD in respect of underwriting activities are supplied annually by Parliament. ECGD's Fixed Rate Export Finance (FREF) Scheme enables banks to offer overseas buyers of UK capital goods the benefits of fixed interest loans, often on attractive terms. ECGD uses the Guaranteed Export Finance Corporation (GEFCO) as a vehicle for its refinancing programmes. GEFCO is a special purpose vehicle set up as a charitable trust, which refinances existing FREF loans.	For Exim Bank of Korea, the government compensates the bank for the negative margins between its overall borrowing rates from abroad and the bank's lending rates. Exim Bank of Korea Act provides that if the Bank's reserves are insufficient to meet its net loss in any fiscal year, then the government will provide funds to cover the shortfall. In February 2002, the Export-Import Bank of Korea Act was amended and the key change in the Act lies in making foreign exchange service a regular operation of the Bank. Previously, lending was possible only when repayment of loan was 100% certain, which has	JBIC raises a part of its funds for International Financial Operations through Government Guaranteed bond issues in International Capital Markets. Outstanding bonds at the end of fiscal 2001 amounted to USD 12,212 million, accounting for 98% of the total outstanding amount of borrowings from the market.

	<p><u>Interest Rates Equalisation System</u>, also using Brazilian Treasury Resources for equalisation, to allow better conditions of finance for national goods in a global market. The equalisation consists in the difference between the charges agreed to by the borrower and the cost of raising funds, limited to maximum reference rates previously determined by Banco Central do Brazil (BACEN – Brazilian Central Bank). Interest equalisation ranges from a 1% support for credits upto 6 months to as much as 2.5% differential for periods of 9 years. The interest equalisations is paid by means of Government bonds.</p>		<p>been relaxed, which will make it easier for the Bank to be more active in supporting international transactions.</p>	
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[Source: Annual Reports of respective ECAs]

6.2.3.2 Observations :

Typically, government support to ECAs is extended in the following ways:

(i) Share Capital :

Government support to ECAs is usually by way of infusion of funds by way of share capital or subordinated debt. For example, almost 90% of Exim USA's resources are from the US Treasury. Similarly, ECGD, UK is supported by the Treasury for its resources. In the case of Exim Korea, part of the losses on account of Non-Performing Assets (NPAs) are made good by the national government, while all losses for US Exim and ECGD, UK are made good by their respective national treasury accounts. This allows for a greater risk taking ability in the national interest of promoting exports.

(ii) Sovereign guarantee for borrowings:

Provision of sovereign guarantee for the ECA's borrowings enables the ECA to raise funds, both, domestically as well as in the international markets at fine rates. Borrowings of EDC, Canada; Exim, USA; JBIC, Japan; and Exim Korea are guaranteed by their respective governments.

(iii) Interest Equalisation:

Such support is provided by way of an interest make-up/ equalisation system under which the government makes good the difference between market interest rates and concessional export finance rates allowing a minimum assured margin to ECAs for export credit loans extended by them to enable ECAs to provide exclusive support to their national exports by extending credit at competitive costs ensuring that their national exports do not suffer for want of competitive credit.

(iv) Exemption from income tax:

Exemption from income tax enables the ECA to plough back its entire profits into operations. The ECAs in the US, Japan and UK are currently exempt from payment of income tax. Although Exim India was earlier exempt from income tax, its tax exemption status has been withdrawn w.e.f. April 1, 1999.

Table 6.6 Government Support being received by Select ECAs

Export Credit Agencies	Share Capital Infusion	Sovereign Guarantee for borrowings	Interest Equalisation Support from Government	Tax Exemption
Exim India	✓			
Exim Brazil	✓	✓		✓
Exim People's Republic of China	✓	(@)	✓	
COFACE, France	✓		✓	
JBIC, Japan	✓	✓	✓	✓
Exim Korea	✓	✓		
Exim Malaysia	✓			✓
Exim Thailand	✓			
ECGD, UK	✓	(#)		✓
Exim USA	✓	✓	✓	✓

[Source: Annual Reports of respective ECAs]

(@) Most of the Borrowings are from the Government of People's Republic of China.

(#) No Market Borrowings. Resources are supported by HM Treasury.

Table 6.7 *Government Support being received by Select Overseas Counterpart Agencies of ECGC*

Export Credit Insurance Company	Insurance Support given
ECGC, India	ECGC seeking Government's backing
SBCE, Brazil	All Medium and Long Term business is underwritten by Brazil Exports Guarantee Fund supported by country's treasury
People's Republic of China Export and Credit Insurance Corporation (Sinosure)	All risks in the name and account of government
COFACE, France	All risks per transactions beyond 3 years credit are covered on behalf of the state.
HERMES, Germany	All risks in the name and account of government
Nippon Export and Investment Insurance (NEXI), Japan	100% cover for medium and long term transactions with government guarantees or sovereign loans
Republic of Korea Export Insurance Corporation (KEIC)	Treasury support to meet the deficit in the Revenue Account to meet Claims Payment
Malaysia Export Credit Insurance Berhad	To approach Government for support
ECGD, UK	For high risk markets and for business operated under ministerial directive which did not meet ECGD's underwriting criteria, it is directly underwritten by treasury.
Exim USA	All risks in the name and account of government
[Source: ECGC]	

6.2.3.3 *National Interest Accounts :*

Background:

Several ECAs maintain separate National Interest Accounts for transactions conducted on behalf of or at the behest of their Governments. Some examples are given as under:

- JBIC, Japan has a separate fund for providing long term, concessional loans for financing Japanese exports which is supported by its Government.
- The US Exim provides subsidies to US exporters which are reimbursed from the US Treasury Account.
- Exim Bank of People's Republic of China administers Chinese government concessional loans and onlends foreign government loans.

Some of the equivalent institutions of ECGC India also maintain National Interest Accounts. Some examples are given as under:

ECGD: When the accounting officer advises that a proposal does not meet the normal underwriting criteria, guarantees are issued on the written instruction of relevant Minister's of Government for project exporters, if it is of national interest or importance. Export Guarantee Advisory Council (EGAC) determines whether there is a national interest case.

HERMES: To promote project exports to developing countries, the amounts which are paid as claims or included in rescheduling agreements are subrogated to Federal Government.

NEIA case for ECGC India: If reinsurance is available and cost is absorbable, there is no need for support from GOI. If reinsurance is available and cost is prohibitive or reinsurance is not available at all, then the reference of NEIA is relevant.

6.2.4 CONCLUSIONS DRAWN

- 6.2.4.1** Barring the European ECAs in the private sector who are primarily engaged in providing export credit insurance, most of the other ECAs involved in funding activities either receive funding support from their governments or have their borrowings guaranteed by their respective governments.
- 6.2.4.2** The major sources of funds of the ECAs are paid-up capital, reserves and borrowings. With the exception of Exim USA, ECAs in the industrialised countries depend more on borrowing from the international capital markets compared with those in developing countries. Government support to ECAs include provision of sovereign guarantee to enable raising of funds in the international market at fine rates. Borrowings of Economic Development Corporation (EDC), Canada; JBIC, Japan; Exim Korea, for instance, are guaranteed by their respective governments. All the competitive organisations are backed totally by their respective governments as far as underwriting project exports is concerned. Many of them offer cover by underwriting all risks in the name and account of their respective governments. Alternatively, treasury support to meet the deficit in the revenue account to meet claims payment is made available.
- 6.2.4.3** ECAs have been generally considered as institutions for purveying export credits with a mission to promote national exports. They have also often had to compete with other national ECAs in terms of offering credit terms. Both these factors have meant that almost all of the ECAs considered are fully owned by the Government. However, countries like Germany and France have been successful in fostering insurance agencies in the private sector which have led to the creation of the world's top credit insurers.
- 6.2.4.4** There is a major difference in the range of programmes operated by ECAs in developed countries (excluding Japan), those in Japan, Republic of Korea, and those in developing countries. While the European ECAs are mainly engaged in credit insurance and guarantees, (other than the non-fund based activities such as providing credit information, rating services, advisory services, etc.), ECAs in the developing countries have

gone beyond the traditional export credit programmes and operate a much wider range of facilities including overseas investment finance, import finance and export promotion activities.

- 6.2.4.5** There are considerable differences in the magnitude of financial assistance provided by various ECAs. JBIC dwarfs the other ECAs with outstanding loans of US\$ 170 billion, nearly twelve times that of the next largest ECA, EDC, Canada with outstanding loans of US\$ 15 billion. The performance reported by some of these ECAs reflects their role as private entities and does not take into account the business conducted on behalf and at the behest of the Government. The geographical pattern of assistance extended by various ECAs reflected the destination of national exports with Asia accounting for a major part of the assistance sanctioned by the Asian ECAs followed by Latin America and Africa. Main regions assisted by US Exim and ECGD, UK were Asia/Latin America and People's Republic of China respectively. While industrialised country ECAs including US Exim and EDC, Canada were mainly involved in the medium and long term financing of capital goods, aircrafts and the telecom sector, the product distribution of ECAs in the developing countries showed a diverse range.
- 6.2.4.6** The world over including developed countries, ECAs are fully supported and funded by respective governments in order to strengthen their ability to play a proactive and catalyst role. There is a need to strengthen Exim India in order to meet international competition for project exports especially where there is requirement of long term finance and at low cost. For lines of credits, in India, there does not exist an established system by way of an Interest Equalisation Scheme. ECGC's project export business needs to be similarly supported by GOI to ensure support for large value projects and for high risk markets.
- 6.2.4.7** The degree of reliance on equity and borrowings varies significantly, reflecting to a certain extent, the level of involvement of national governments in the form of capital and resources provided.
- JBIC's foreign notes and bonds are guaranteed by the Japanese Government.

- Almost 90% of Exim USA's resources are from the US Treasury, the balance being marketable securities issued by Exim USA.
- Exim Bank of People's Republic of China is the policy bank of People's Republic of China and its business is completely underwritten by the Government of People's Republic of China.

Exim India's access to funds from GOI/RBI has been low and the bank has been raising funds at market rates since the last few years. This has made it challenging for the Bank to sustain its profitability and at the same time offer competitive interest rates to its borrowers for financing exports.

The export credit trends in India are discussed at ***Annexure VIII***.

7.

Trade Missions Worldwide – Practices

Trade Missions all around the world, support companies and firms from their respective countries in their efforts to increase exports and do business abroad. For the purpose, these trade missions render a variety of services to promote trade and investment, particularly for small and medium-sized enterprises.

7.1 ANALYSES OF OTHER TRADE MISSIONS

Practices of select Trade Missions, the world over, that are discussed are:

- ❑ *US Commercial Service, Department of Commerce, US Government*
- ❑ *Japan External Trade Organisation (JETRO)*
- ❑ *Australian Trade Commission (AUSTRADE)*
- ❑ *China Council for Promotion of International Trade (CCPIT)*
- ❑ *Korean Trade Investment Promotion Agency (KOTRA)*
- ❑ *Malaysian External Trade Development Corporation (MATRADE)*

7.1.1 US COMMERCIAL SERVICE, DEPARTMENT OF COMMERCE, GOVERNMENT OF USA

7.1.1.1 Background

The U.S. Commercial Service, Department of Commerce, Government of USA maintains a worldwide business counseling network with offices in more than 100 cities in the United States and around 160 offices in 85 countries overseas. The mission of the Commercial Service is to support U.S. firms - especially small and medium sized companies - in their efforts to increase exports and do business abroad. The agency promotes American private sector participation in developing and middle-income countries, with special emphasis on economic sectors that represent significant U.S. export potential.

Box 7.1 Services offered by the US Commercial Service

Assistance in finding International Partners	Assistance in Trade Events
<p><i>It manages a new website, buyusa.com which provides with thousands of qualified, prescreened export leads, international business contacts, and personalized trade counseling including Trade Opportunity Program (TOP) leads. It also assists in close direct export sales, build valued, long-termed relationships with international business partners and complete export transactions using on-line tools and the personal support of their staff of trade specialists.</i></p> <p><i>It assists in meetings face-to-face with qualified business prospects in two to four promising export markets. The program includes comprehensive country briefings, logistical support, and follow-up counselling.</i></p> <p><i>It gives opportunity to meet face-to-face with pre-screened international business prospects and get answers to market questions in an interactive video conference focusing on various industries.</i></p> <p><i>It delivers detailed company information on up to five prescreened potential partners that have expressed an interest in a company's products and services.</i></p>	<p><i>It assists in organising matchmaker trade delegations which includes comprehensive country briefings, logistical support, and follow-up counselling.</i></p> <p><i>It assists US Companies to showcase their product and service literature in fast-growing export markets around the world.</i></p> <p><i>It assists in recruiting a large number of foreign end-users and distributors to visit top U.S. trade shows and help organize meetings and provide matchmaking services and business counselling to help generate sales.</i></p> <p><i>It puts US Companies in the best international trade shows with access to thousands of buyers. One-on-one matching at the show with potential buyers arranged by their team of market and industry specialists help generate sales and long-term business relationships at these high-volume shows.</i></p> <p><i>U.S. Commercial Service supports dozens of trade missions organized by state organizations, chambers of commerce, and industry associations. It provides in-depth counselling at major trade shows from a team of market and</i></p>

Project Exports

<p><i>It assists in building mutually beneficial partnerships between American companies and overseas project sponsors, which results in increased U.S. exports, and the completion of high quality, successful projects in host countries.</i></p>	<p><i>industry specialists who know the local and regional markets.</i></p> <p><i>It promotes US companies' products or services to more than 400,000 international buyers.</i></p>
Market Research	Consulting and Advocacy
<p><i>It offers comprehensive market research.</i></p> <p><i>The U.S. Commercial Service provides a wide variety of informative newsletters to the exporting public.</i></p> <p><i>It also present market opportunities and insights on how to do business in specific countries.</i></p> <p><i>It provides timely, customized answers to inquiries about a market and its receptivity to products and services from USA.</i></p>	<p><i>Their trade specialists directly interact with the team of experts overseas in getting information and advice that the American companies need to succeed. They can also help in determining the best markets for their products and services and develop an effective export strategy, evaluate international competitors, identify and comply with legal and regulatory issues, locate export financing, settle disputes and win contract bids.</i></p> <p><i>The agency has a Trade Information Centre (TIC), which is a comprehensive resource for information on all U.S. Federal Government export assistance programs. These agencies are responsible for managing the U.S. Government's export promotion programs and activities.</i></p>

7.1.2 JAPAN EXTERNAL TRADE ORGANISATION (JETRO)

7.1.2.1 Background

JETRO conducts wide-ranging programs to promote trade and investment, particularly for small and medium-sized enterprises, with the aim of stimulating both the East Asian and global economies. They also promote increased foreign investment in Japan, which is expected to help stimulate domestic employment, internationalise Japan's regional economies and generally revitalise the Japanese economy. Their major undertakings include helping developing nations to nurture their supply industries, promoting cooperation between industries in Japan and other developed nations and encouraging international interchanges on a variety of levels. To carry out these and other activities, they work very closely with their network of offices worldwide and also with Japanese missions the world over.

Box 7.2 Activities of JETRO

Supporting Exports to Japan:	Japanese Investment Overseas:
<p><i>It offers wide-ranging support for importing in Japan, thereby helping to strengthen harmonious economic relationships between Japan and other nations.</i></p> <p><i>It also supports export campaigns conducted by developed countries through organizing trade exhibitions, holding seminars on exporting to Japan and conducting advertising and promotional activities.</i></p> <p><i>It manages the Trade Tie-up Promotion</i></p>	<p><i>JETRO encourages and supports the overseas direct investment activities of Japanese SMEs (small and medium-size enterprises) in numerous ways such as organizing seminars and overseas investment fairs to get Japanese companies interested in overseas investment and supporting Japan's SMEs, assisting feasibility studies and providing necessary information concerning overseas investment to help them transfer their managerial and technological know-how to developing countries.</i></p>

<p><i>Program (TTPP) system to help Japanese and foreign companies find partners for international business, including export/import trade, technology tie-ups and other partnerships.</i></p> <p><i>It conducts surveys in order to assess the degree of accessibility of the Japanese market for foreign companies.</i></p> <p><i>It dispatches specialists on overseas assignments lasting about one month, during which time they look for foreign products that have potential for import into Japan.</i></p>	<p><i>It is also actively involved in promoting foreign direct investment in Japan and disseminate extensive information about the infrastructure and investment climates of Japan's regional economies. JETRO's Region to Region Initiatives for Industrial Development Program supports efforts by regional governments in Japan and other countries to develop their local economies through joint activities.</i></p>
Technology Sharing	Developing countries
<p><i>JETRO organizes programs for technology sharing that help to promote international cooperation and new-business creation. The programs include dispatching and receiving missions, holding seminars and promoting technologies through JETRO's Internet homepage and publications.</i></p>	<p><i>JETRO conducts programs, such as sending advisors and sponsoring exhibitions, to promote industrialization in selected developing countries of Asia, the Middle East, Africa, Central and Eastern Europe and Latin America. Programs for Asian countries include identifying local manufacturers suitable for investment by Japanese small and medium-size enterprises.</i></p>
International Interaction	Information
<p><i>JETRO provides opportunities for economic and business leaders from Japan and overseas to meet and discuss issues of interest and enhance mutual understanding by way of invitation programs, dispatching speakers and</i></p>	<p><i>JETRO fully mobilizes its information and know-how to respond to trade and investment inquiries at offices around the world. Companies frequently request JETRO's help, for example, when searching for foreign business</i></p>

holding seminars and symposia in and out of Japan.

JETRO encourages school-affiliated internships for foreign university students by approaching Japanese companies directly or in cooperation with local Japanese governments to develop interest in internships and specify conditions for accepting foreign interns, and by informing universities overseas of Japanese companies that accept foreign interns.

connections, selecting candidates for international business tie-ups and comparing investment climates overseas.

JETRO has a wide variety of information in its two libraries. One, located at JETRO headquarters in Tokyo, offers the latest information and data on economics, business, trade and investment, as well as extensive materials such as business directories, tariff schedules, periodicals and much more.

7.1.3 AUSTRALIAN TRADE COMMISSION (AUSTRADE)

7.1.3.1 Background

The Australian Trade Commission (AUSTRADE) is the Federal Government agency that helps Australian companies win overseas business for their products and services by reducing the time, cost and risk involved in selecting, entering and developing international markets. Their mission is to contribute to community wealth by helping more Australians succeed in export and international business.

AUSTRADE is represented in 109 locations in 61 countries including an extensive domestic network throughout Australia. AUSTRADE offers practical advice, market intelligence and ongoing support (including financial) to Australian businesses looking to develop international markets. AUSTRADE also provides advice and guidance on overseas investment and joint venture opportunities, and helps put Australian businesses in contact with potential overseas investors. AUSTRADE works very closely with Australian missions worldwide for rendering services to Australian companies which include:

- practical export information and advice
- identification of overseas opportunities

- on-the-ground exporting support overseas and in Australia
- a comprehensive trade exhibition program
- services to identify potential overseas business partners and to research and access high potential markets for Australian companies
- strategic export planning and network formation services

7.1.3.2 *Main activities of AUSTRADE*

The main activities of AUSTRADE are as under:

New exporter services

AUSTRADE offers a package of free services designed to assist small and medium sized Australian companies develop their businesses overseas and make their first export sale.

The program gives Australian businesses the best possible start to exporting, by providing a wide range of free services to new exporters including advice and information about getting into exporting, export coaching and assistance on the ground in foreign markets.

Support for potential exporters is available through AUSTRADE and partner organisations throughout Australia and their overseas network.

Market Entry Strategies

AUSTRADE assists in finding a suitable master franchisee as a key first step for exporters offering franchise concepts offshore. The master franchisee is often identified through financial and business advisory contacts such as bankers, accountants and business consultants.

AUSTRADE also assists in finding strategic alliance partners often identified through:

- bankers
- accountants
- business consultants
- industry associations and networks

7.1.4 CHINA COUNCIL FOR PROMOTION OF INTERNATIONAL TRADE (CCPIT)

7.1.4.1 Background

The aims of the CCPIT are to operate and promote foreign trade, to use foreign investment, to introduce advanced foreign technologies, to conduct activities of Sino-foreign economic and technological cooperation in various forms, to promote the development of economic and trade relations between China and other countries and regions around the world through the missions worldwide, and to promote the mutual understanding and friendship between China and peoples and economic and trade circles of all nations around the world, in line with law and government policies of the People's Republic of China.

The CCPIT admits new members from among enterprises in all parts of China and promotes trade through its functions including information consultation, exhibition, legal assistance.

Box 7.3 Major Activities of CCPIT

Economic Information	International Relations & Exhibitions
It is responsible for investigation and studying the economic development in China and abroad; collecting, sorting out, relaying and releasing economic and trade information; providing information on a two-way basis for Chinese and foreign enterprises, institutions and economic and trade organizations as well as institutions in the same system; providing relevant Chinese and foreign enterprises	Its major tasks are: <ul style="list-style-type: none"> ❑ Develop ties and keep in touch with business communities around the world, particularly through close contacts with chambers of commerce and trade associations in the countries and regions; ❑ Invite and host business delegations from overseas and organize Chinese business delegations to visit abroad; ❑ Undertake institutionalized cooperation with foreign chambers

<i>and institutions with information on economic and technological cooperation and trade, and with consultation services; providing Chinese and foreign companies and enterprises with the service of investigating the credibility rating of business; contacting Chinese and foreign economic and trade circles to organize activities of technological exchange; editing and publishing foreign economic and trade publications; organizing foreign economic and trade negotiations; and brokering economic and trade links and cooperation between China and foreign countries.</i>	<i>of commerce, other business organizations and international non-governmental organizations; ❑ Keep close contact with the representative offices of foreign counterpart organizations, foreign chambers of commerce as well as embassies and consulates in China ❑ The main business of the Exhibition Department is to act under the trust of the Chinese government to hold Chinese trade exhibitions abroad and participate in international expositions and shows on behalf of China. It is also in charge of coordinating and managing the holding of Chinese trade exhibitions abroad.</i>
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7.1.5 MALAYSIA EXTERNAL TRADE DEVELOPMENT CORPORATION (MATRADE)

7.1.5.1 Background

The main objective of establishment of MATRADE is to develop and promote Malaysia’s Export to the world.

The basic functions of MATRADE is to promote, assist and develop Malaysia’s external trade with particular emphasis on the export of manufactured and semi-manufactured products and services.

Box 7.4 Main Activities of MATRADE

Trade Information	Trade Promotion
<p>Malaysia Exporters Database MATRADE maintains and updates a <u>database</u> of Malaysian exporters comprising manufacturers, traders, service providers and trade associations. Malaysian companies which are registered with MATRADE are regularly updated on trade opportunities, events and activities organised by MATRADE.</p> <p>Business Library The <u>Business Library</u> provides a wide range of business and trade information. The library collection includes trade directories, periodicals, books, statistical publications, CD-Rom and video titles. Visitors to the Library have access to MATRADE's online databases. The Library offers the business community a convenient means for conducting preliminary research on markets and products.</p> <p>Trade Statistics MATRADE Stats Online (a trade statistics search facility) enables access to Malaysian External Trade Statistics database. It enables companies to monitor trends for specific markets/</p>	<p>International Trade Fairs MATRADE organises and manages Malaysia's participation in <u>international trade fairs</u> overseas. Trade fairs serve as a good starting point for companies wanting to promote their products and services to potential foreign buyers. MATRADE provides assistance in handling space reservations, stand design and its construction, pre-event publicity and the scheduling of business meetings with foreign buyers.</p> <p>Trade Missions MATRADE together with the Ministry of International Trade and Industry and the Malaysian Industrial Development Authority annually organises a number of <u>trade and investment missions</u> to major existing and emerging markets. By participating in these missions, Malaysian companies can develop business contacts and network with foreign officials, business leaders and international buyers.</p>

products as well as to identify new markets. This online service is currently available at the MATRADE Business Library.

Publications

MATRADE produces publications for international and domestic circulation. These include sectoral trade directories, exporters' guidebooks, Trade Mart (MATRADE's monthly bulletin), MATRADE LEADS (a weekly compilation of enquiries from foreign companies wishing to source for Malaysian products and services) and a calendar of major trade events in the country.

Market Information

MATRADE disseminates information on overseas markets and business opportunities to Malaysian companies.

Specialised Selling Missions

MATRADE organises specialised selling missions overseas to explore and identify new trade opportunities for selected product markets. Apart from generating potential sales, these missions also offer opportunities for establishing business networking.

Malaysian Products Exhibition (MPE)

MATRADE also organises Malaysian Products Exhibition (MPE) to showcase made-in-Malaysia products and services. Especially effective in the new and emerging markets, MPEs provide maximum exposure for Malaysian products and services in these targeted markets.

Trade Matching	Export Development
<p>Trade Enquiries MATRADE responds to trade-related enquiries from foreign buyers, trade associations, chambers of commerce, foreign missions in Malaysia, business visitors to Malaysia as well as from Malaysian companies. The trade enquiries from foreign buyers are disseminated to Malaysian companies through its publications and on MATRADE's website.</p> <p>Inward Buying Missions MATRADE overseas offices organise inward buying missions, where individual business meetings are arranged between members of the mission and Malaysian suppliers.</p> <p>Incoming Trade Delegations MATRADE receives visits of foreign trade delegations. Apart from organising business briefings, MATRADE schedules individual business meetings between Malaysian businesses and members of foreign trade delegations.</p>	<p>Market Development Grants (MDGs) SMEs undertaking activities for the development of export markets can apply for up to 50% matching grants under MDG. Export promotion activities covered by the scheme include participation in international trade missions, specialised selling missions, international trade fairs, exhibition of export in the Malaysian trade centre overseas, preparation of promotional items, promotion of brand names overseas, designing and improving packaging of products and participation in overseas international tenders.</p> <p>Training for Export MATRADE organises <u>seminars and workshops</u> to nurture new exporters and update existing exporters on trade developments and business opportunities in international markets. The topics covered include: export opportunities in new and emerging markets, trade regimes and procedures, brand name development, product promotion, skills in international marketing and e-commerce.</p>

7.1.6 KOREAN TRADE INVESTMENT PROMOTION AGENCY (KOTRA):

7.1.6.1 *Background*

KOTRA came into being as the Korea Trade Promotion Corporation, a nonprofit governmental organization established on June 21, 1962 to pursue the national policy goals of maintaining the trade balance and building a self-reliant economy. For almost four decades, KOTRA has contributed to the development of the Korean economy through various trade promotion activities, such as trade information, market research services and business matchmaking.

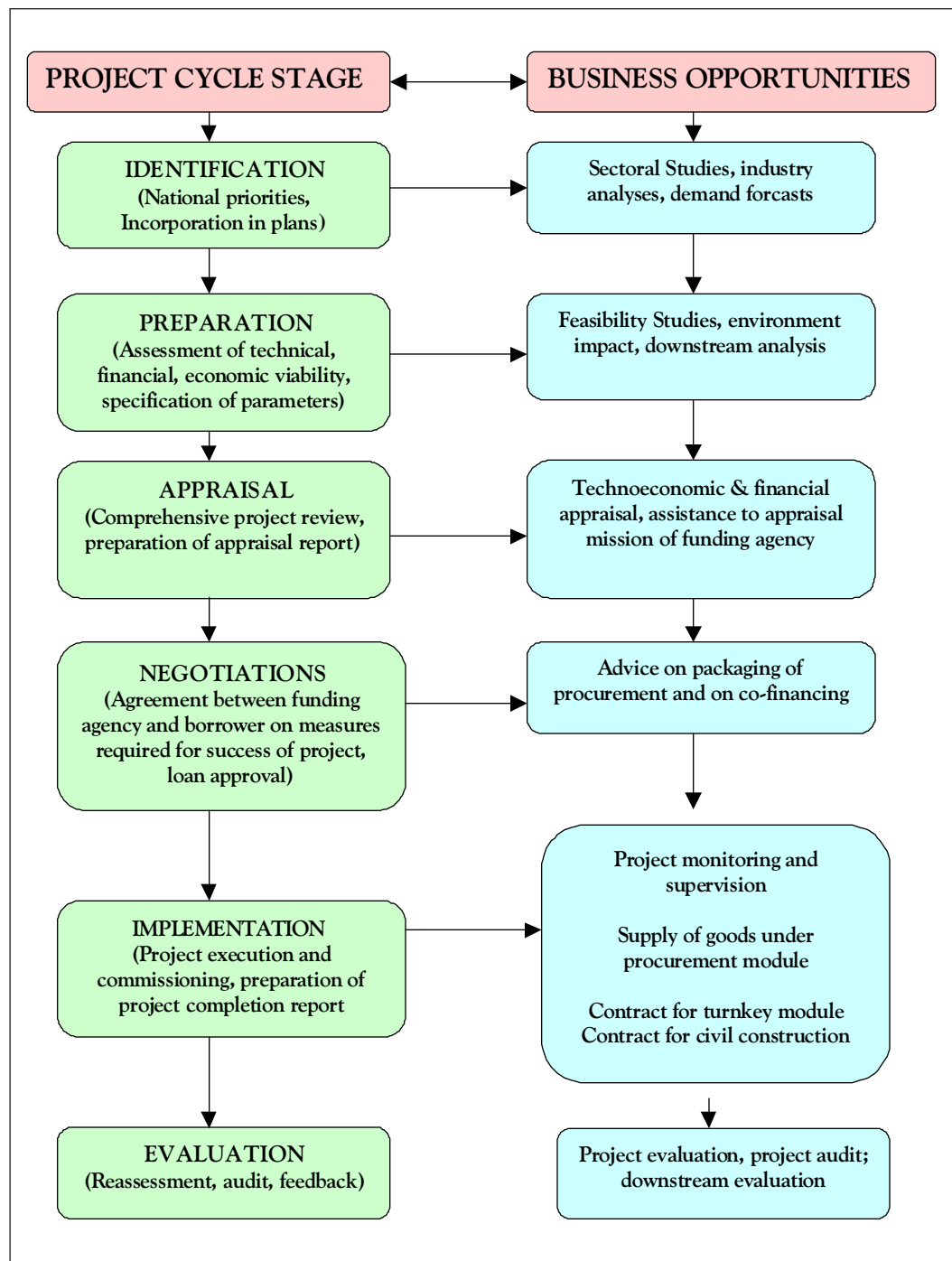
Box 7.5 Services offered by KOTRA

Market Research Information	Overseas Marketing	Exhibitions and World Expos
<p><i>In order to meet their clients' needs for overseas market information (especially economic, trade and product information), they collect and analyze data from our 101 Korea Trade Centers located in 68 countries, which is then provided to their clients free of charge.</i></p> <p><i>They also provide customized research information to assist clients better to understand to enter new markets more easily.</i></p>	<p><i>They perform various marketing activities including the dispatch of trade missions to every corner of the world, working in close cooperation with their overseas branches.</i></p> <p><i>They assist Korean business people to arrange business meetings with potential foreign partners during their overseas business trips and on their behalf, arrange interpreters and reserve hotel accommodation.</i></p>	<p><i>KOTRA organizes the participation of domestic firms in exhibitions they sponsor, providing them with the opportunity to display their products in export markets.</i></p> <p><i>They organize Korean national pavilions at world expositions to facilitate national representation.</i></p>
Business Meetings	Investment	Goldkey Service
<p><i>They arrange business meetings between Korean company representatives and overseas buyers who are visiting Korea.</i></p>	<p><i>The Korea Investment Service Center (KISC) within KOTRA delivers a one-stop service to foreign investors to support the investment process.</i></p>	<p><i>The Goldkey Service provides a package of market access services to Korean exporters at reasonable prices.</i></p>

7.2 **ROLE OF INDIAN MISSIONS**

- 7.2.1** The role of Indian Missions is a critical element in achievement of export success. Indian Missions need to adopt a more pro-active approach to create an enabling environment for promoting project exports. In this connection, special emphasis has to be given to activities such as :
- i) market intelligence as well as collection, collation and dissemination of information
 - ii) interactive-meets, exhibitions, seminars/ workshops for business development
 - iii) support to business and industry delegations/ study teams
 - assist individual exporters for export promotion activities abroad
 - assist export promotion programmes in a respective regions abroad
 - iv) explore overseas market opportunities
 - v) organise buyer-seller meets in India and abroad
 - vi) promote co-operation between Indian project exporters and foreign clients by assisting in formation of consortia and / or joint venture arrangements
 - vii) generation of business leads for Indian project exporters and developing these leads to its desirable end.
- 7.2.2** Indian Missions abroad can also play a key role in increasing Indian participation in Multilateral Funded Projects Overseas and in enhancing success rate of Indian bids.
- 7.2.3** The role of Indian Missions in the various stages in the project cycle and in the emanating business opportunities can be to:
- (i) Establish/ enhance awareness of relevant Indian export capabilities
 - (ii) Track business opportunities through the project cycle
 - (iii) Provide specific inputs to interested Indian exporters
 - (iv) Coordinate with concerned agencies
 - (v) Analyse reasons for bid success/ failure and provide feedback.

Figure 7.1 The Project Cycle and Business Opportunities



7.3 CONCLUSIONS DRAWN

Indian Missions need to equip themselves better to offer to Indian exporters a range of services including :

- ❑ *personalised and customised services to Indian project exporters and facilitate formation of long-term relationships with international business partners.*
- ❑ *assistance in building mutually beneficial partnerships between Indian companies and overseas project sponsors, which result in increased Indian exports, and the completion of high quality, successful projects in host countries.*
- ❑ *effective matchmaking services and business counseling.*
- ❑ *developing ties and keeping in touch with business communities, particularly through close contacts with chambers of commerce and trade associations in the countries and regions and undertaking institutionalized cooperation with foreign chambers of commerce, other business organizations and international non-governmental organisations.*
- ❑ *projecting Indian capabilities and drawing upon the resources of agencies such as India Trade Promotion Organisation.*

8.

Indian Consultancy Exports Scenario

8.1 **BACKGROUND**

Service contracts involving provision of personnel and/ or furnishing of know-how and skills are categorized as consultancy projects. These cover a wide range including management contracts of industrial plants, hospitals, hotels, oil exploration, charter hire of rigs and locomotives, supervision of erection of new plants, CAD/ CAM solutions in software exports, finance and accounting systems.

Indian consultants have demonstrated capability to provide and match international competition across various sectors. These include:

- ☐ IT and IT enabled services
- ☐ Power
- ☐ Transportation
- ☐ Water Supply

A study carried out by Exim India on “Engineering Consultancy Exports”, has noted a significant wage based cost advantage in engineering and technical personnel. Indian engineers also carry high reputation, with world-class productivity levels.

8.2 **SNAPSHOT OF CONSULTANCY CONTRACTS SECURED OVERSEAS**

8.2.1 **EXPORT OF SERVICES**

Global export of services has increased at a faster pace than merchandise exports. India’s commercial services exports totalled US\$ 20.1 billion in 2001 registering a growth rate of 14%, next only to Ireland at 15%. India’s share in exports of commercial services also improved to 1.4% in 2001 from 1.2% in the previous year. All these figures clearly indicate the immense opportunities that services exports hold for India.

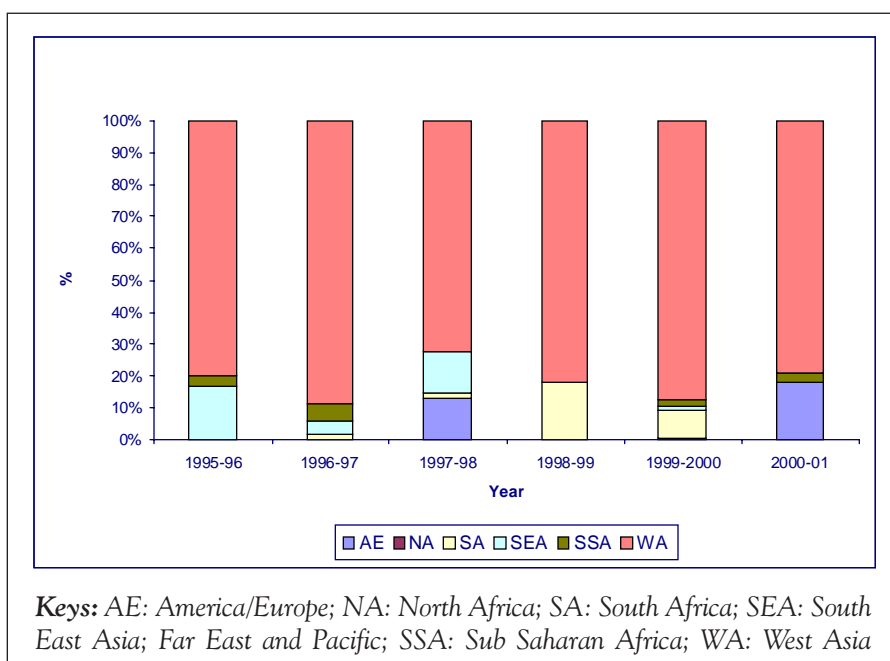
At the heart of the exceptional growth of export services lies software exports. The Indian software industry, which has grown at an amazing pace, is a successful player in the international software market and

enjoys the benefit of a good reputation, auguring well for future growth. During 2001-02, software exports from India amounted to US\$ 7.8 billion, registering an impressive 25.8% increase over 2000-01 and are projected to grow further to US\$ 9.6 billion in 2002-03 (Source: NASSCOM).

8.2.2 CONSULTANCY CONTRACTS SECURED BY INDIAN PROJECT EXPORTERS

- ❑ An analysis of consultancy contracts secured by Indian project exporters overseas has been carried out by Exim India. These cover cases where consultancy firms have approached Exim India/ Working Group for post award approval as well as those cases which Exim India is aware of.
- ❑ An analysis of the geographical dispersion of contracts secured during 1995-96 and 2000-01 indicates that consultancy contracts were secured mainly in West Asia.

Figure 8.1 Regionwise Distribution-Consultancy Contracts Secured



8.3 **INADEQUATE PRESENCE OF INDIAN CONSULTANTS OVERSEAS**

Indian consultants do not have adequate presence in thrust markets. Consultants need to nurture contacts and develop strategic tie-ups to obtain information at an early stage. Higher success rate in securing consultancy contracts would have a multiplier effect for securing turnkey and construction contracts as well as supply contracts. Some constraints, perceived by project exporters in consultancy contracts include:

- ☐ Pricing, a major reason for loss of bids.
- ☐ Time lags in receipt of information, uncertainties relating to the project parameters, local laws relating to use of personnel, get reflected in the form of cushions in costing, rendering the total price for the contract uncompetitive in the face of global competition. Companies need to adopt strategic export development approach in tracking export opportunities and target countries systematically.
- ☐ Matching intense competition from consultants of developed countries where lobbying is aggressive.
- ☐ Low equity base and small size of Indian consultancy organisations.
- ☐ Lack of effective and strategic tie-ups with reputed international consultancy firms for prospecting in third countries.
- ☐ Need for increased investment in research and development. Most engineering consultancy companies from the developed world have a large capital base and invest heavily in research and development. The much large R&D expenditure of companies in developed countries translates into substantial competitive strength for them.

8.4 CONCLUSIONS DRAWN

In a highly competitive global arena, Indian companies bidding for consultancy contracts overseas have to adopt appropriate strategies which would include the following:

- 8.4.1 Indian consultancy firms should be well positioned so as to project India as a source of technological skills by creating a bank of their consultancy capabilities for marketing through Indian Embassies and missions abroad, gaining early access to information about tenders for international projects, forming consortium with companies that complement their skills, registering themselves with multilateral institutions worldwide and with their international vendors, licensors and engineering consultancy companies.
- 8.4.2 India is a major player in the global software sector. CAD/ CAM based design-engineering services contracts can be targeted by capable Indian software companies. Similarly, project management or maintenance contracts can be a focus area. With increasing opportunities in projects and services exports, Indian firms should participate aggressively in multilateral agency funded projects.
- 8.4.3 Indian consulting firms need to achieve international certification standards, including ISO 9000, that can enhance the quality image of Indian firms.
- 8.4.4 The nature of consultancy services that can be potentially exported include the gamut of functions associated with pre-project, project execution and post-project services spanning various sectors.
- 8.4.5 Indian consultants are increasingly making their presence felt in sectors such as education and health.

8.4.6 STRENGTHENING OF INDIAN CONSULTANCY FIRMS

Consultancy firms are increasingly required to provide a comprehensive range of services spanning various sectors of the economy. This calls for pooling of resources, complementary skills and the ability to draw upon resources adopting a consortium approach. Consultancy firms with shareholders having acknowledged expertise in specific sectors can, by coming together effectively, handle multi-sectoral assignments.

Such organisations and service providers need to be strengthened to create potential for project exports from India.

Box 8.1 Consultancy Firms - a Consortia Approach

<p>❑ Global Procurement Consultants Ltd. (GPCL)</p> <p>GPCL was set up to deal primarily with procurement related advisory services. GPCL has as its shareholders leading consultancy firms from both the private and the public sector. The company caters to areas as diverse as Health, Education, Agriculture, Mining, Transportation, Communication, Energy, Water Resources and more. GPCL acts as the client's representative in taking on the total responsibility of procurement, by providing a comprehensive range of procurement related advisory services. With thorough</p>	<p>❑ Petroleum India International (PII)</p> <p>Petroleum India International (PII) is a consortium of top eight corporates in the petroleum & petrochemicals industry in India with combined annual turnover exceeding 40 billion US dollars and employing over 45,000 trained manpower.</p> <p>PII is a Single Window Organisation of Indian Petroleum Industry which renders expert Technical, Managerial and Human Resource Services. PII is actively involved in Training & Development activities for the International</p>
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Project Exports

knowledge of the guidelines and practices stipulated by international funding agencies like the WB, AfDB and AsDB, GPCL has the expertise to provide to the project authorities appropriate advice and service in procurement, strictly following the procedures and policies of MFAs.

Petroleum Industry Personnel. PII is also involved in the areas of Technical & Management Consultancy for the International Petroleum Industry and rendering IT Solutions.

9.

Recommendations

9.1 **POLICY RELATED RECOMMENDATIONS**

9.1.1 **CONSTITUTION OF HIGH LEVEL STANDING COMMITTEE ON PROJECT EXPORTS**

- 9.1.1.1 A High level Standing Committee chaired by Secretary, Ministry of Commerce with representatives from Ministry of Finance & Company Affairs, Ministry of Commerce & Industry, Ministry of External Affairs, Reserve Bank of India, Exim India, ECGC will be set up to support projects which needs special attention. The Committee will also deal with wide ranging matters, including taxation, special dispensations, consideration of export proposals of non-commercial nature, and issues impacting on project exports.

This High Powered Committee will comprise the following members:

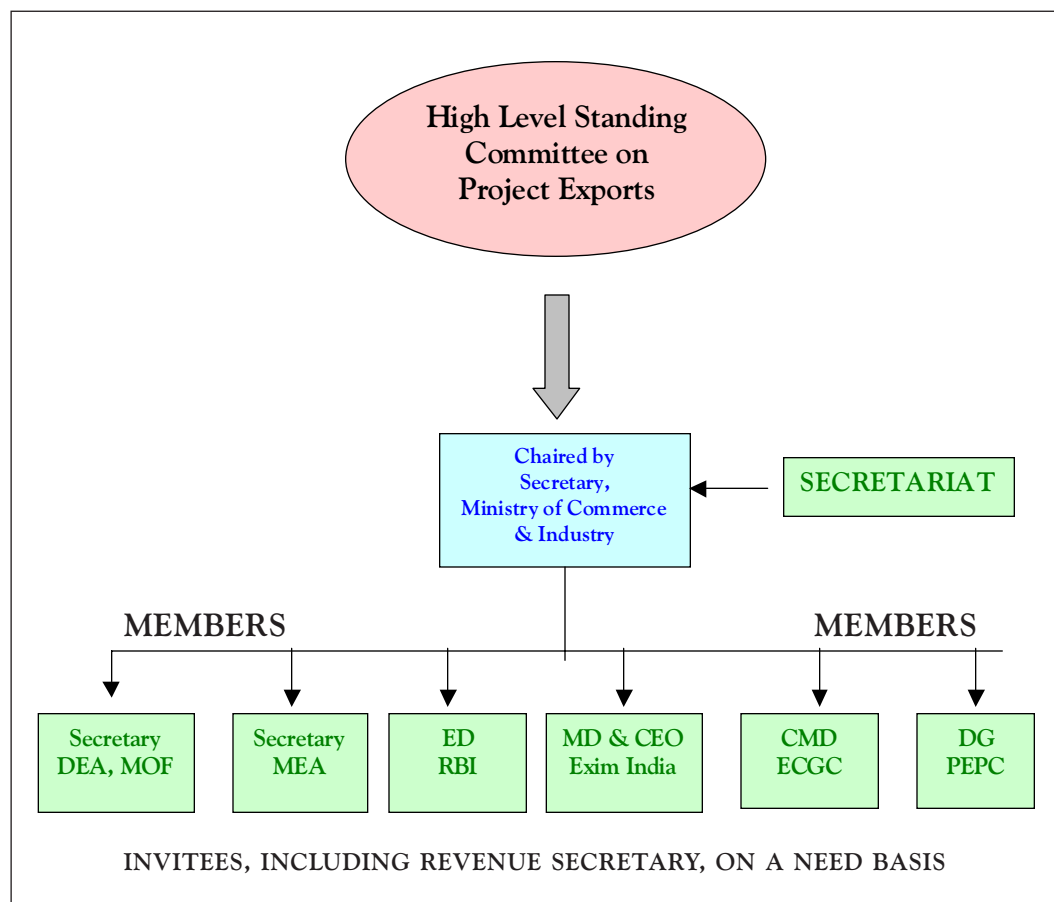
- ☐ Secretary, Ministry of Commerce & Industry – Chairman
- ☐ Secretary, Department of Economic Affairs, Ministry of Finance or his nominee not below rank of the Joint Secretary, Ministry of Finance
- ☐ Secretary, Ministry of External Affairs or his nominee not below rank of the Joint Secretary, Ministry of External Affairs
- ☐ Representative from Reserve Bank of India not below the rank of Executive Director
- ☐ Managing Director & Chief Executive Officer of Exim India
- ☐ Chairman & Managing Director of ECGC
- ☐ The Director General of Project Exports Promotion Council will be a permanent invitee.

The Secretariat for this Standing Committee will be headed by Joint Secretary, Ministry of Commerce. Others may be invited on a need basis.

9.1.1.2 Taxation and subsidy related issues for facilitating project exports will be reviewed by High Level Committee on Project Exports where Revenue Secretary will be the Special Invitee.

The Committee will meet mandatorily every three months at least four times a year. The Committee may meet at more frequent intervals as determined by the Chairman.

Figure 9.1 Structure of the High Level Standing Committee



9.1.2 COUNTRY PROGRAMMING MISSIONS

9.1.2.1 Government of India should institutionalise, as a policy, the launching of Country Programming Missions to identified regions/ countries/ markets. Discussions should be initiated with Governments, Policy Makers, Trade and Investment Promotion Bodies to identify areas for cooperation, and thereafter to chalk out strategies for implementation of identified projects/ programmes with significant Indian component. Such projects would serve national objectives of these countries, and would be in consonance with their planning priorities. Boost may be given in particular to projects in SAARC region.

9.1.2.2 Regions for such operations would need to be identified with short, medium and long-term prospects. Relevant studies and research would be conducted to gain deep understanding of prospects and assess risk-rewards.

9.1.2.3 Such missions would include officials from the Government, Indian missions, Exim India, ECGC with appropriate representation from Industry.

9.1.3 HARMONISATION OF POLICIES

Taxation and related issues for facilitating project exports will be discussed in the High Level Standing Committee on Project Exports. Some of the issues which have a bearing on Indian Project Exporters include:

- ☐ Income tax facilities covering aspects such as project exports, royalties, patents, inventions, designs, registered trade marks
- ☐ Cross border leasing/ hiring of equipment,
- ☐ Duties on re-import of equipment, including leased equipment
- ☐ Interest on Exchange Earner's Foreign Currency (EEFC) Accounts
- ☐ Provisions in Exim Policy to address specific requirements for consultancy, construction and turnkey projects

9.2 ***PROCEDURE RELATED RECOMMENDATIONS***

9.2.1 ***ESTABLISHMENT OF COORDINATING AGENCY***

9.2.1.1 ***Background***

A multi-pronged coordinated approach is required to facilitate a quantum increase in project exports. Elements in this strategy to match competitive practices worldwide include:

- ☐ Efficient information access systems
- ☐ Sustained approaches for effective participation in projects funded by multilateral agencies
- ☐ Prefacing activities to facilitate shortlisting of consultants, prequalification of contractors
- ☐ Positioning of Indian consultants
- ☐ Ensuring that recipient countries source significant component of goods, services and projects from Indian companies, where India is a donor/ supporting country for identified projects and programmes.

9.2.1.2 ***Establishment of Project Exports Promotion Council***

There is a need for establishment of a high level Government / Industry coordinating agency, as a 'Project Exports Promotion Council' (PEPC) which will act as an apex organisation for enhancing project exports. This body could also help evolve pro-active approaches to access timely information. This will be an autonomous body and the main function of the body would be to create an effective synergy among Indian Missions, GOI, Exim India, ECGC, Industry Associations and Commercial Banks to ensure early identification of projects, intelligence collection, effective information dissemination to interested project exporters. The equity contribution for creation of this body would come from Government, Industry/Industry Associations and Institutions.

Exim India will play an instrumental role, as current focal point and Secretariat to the Working Group Mechanism of promoting project exports, in the formation of PEPC with the help of Government and Industry.

The Coordinating Agency would address various issues including:

- ❑ **Market Intelligence:** Timely identification of international project opportunities.
- ❑ **Database maintenance:** Maintaining up-to-date database of organisations and specialists in various fields – engineering, capital goods supplies, contracting, project management, financial, environmental, and social.
- ❑ **Promotional Activities:** The facilitating body would actively engage in promotional activities to project the image of India abroad. These would include organising road shows/ presentations, bringing out publications on the capabilities of companies, organising foreign missions, networking with funding agencies, industry associations.
- ❑ **Centralised Database:** The Coordinating Agency will establish and monitor a centralised database on India's accredited vendors, supplies, contractors and consultants. Such a database would be distributed in various Trade and Industrial Fairs and through Indian missions to enhance awareness of India's expertise.
- ❑ **Consortia Approach** towards project exports would be given an impetus by PEPC to help improve prospects of securing contracts through pooling of skills, experience, expertise and financial and technical standings. PEPC would also play a key role on behalf of industry in creating an enabling environment to facilitate securing of sub-contracts, creation of reference lists as also participation with foreign companies as prime contractors, associates, members of a consortia and sub-contractors.
- ❑ PEPC would seek to promote export of capital goods/ undertaking of Turnkey Contracts for the projects being set abroad, which are

dependent on India by way of equity participation by Indian promoters or supply of raw material from India or buy-back of final products.

Box 9.1 Supplies against Indian Equity/ Buyback Leverage

Sometimes, JVs are set up by Indian Companies pursuant to MOUs at Government levels such as Fertiliser Projects, and include a commitment to buy-back production from the plant. It could be ensured that Indian content is optimised. On similar lines, India can also use the leverage available by virtue of buy-back of electricity, petroleum.

Some instances

- i) A Fertiliser Project which envisages an equity contribution by Indian Companies with commitment of buy-back of production from the plant by India.*
- ii) Hydro Electric Projects where Indian companies can undertake such projects on total turnkey basis and repayments can be in the form of buy-back of electricity by India with required funding during construction stage provided by the Government.*
- i) Purchase of LNG on long term basis where Indian companies could supply capital equipment like process boilers, heat exchangers, compressors, motors for LNG projects executed overseas.*
- ii) Participation in large projects where payments would be offset against purchases of crude oil from these countries.*

- ☐ PEPC would assist Indian companies in identifying target markets duly factoring in advantages of geographical proximity, goodwill and traditional linkages. Special emphasis may be provided to regions such as SAARC.
- ☐ PEPC may set up a Screening Committee of the Industry Associations which will determine and implement norms for Indian project

exporters. In this context, the Screening Committee, may consider taking into account aspects such as:

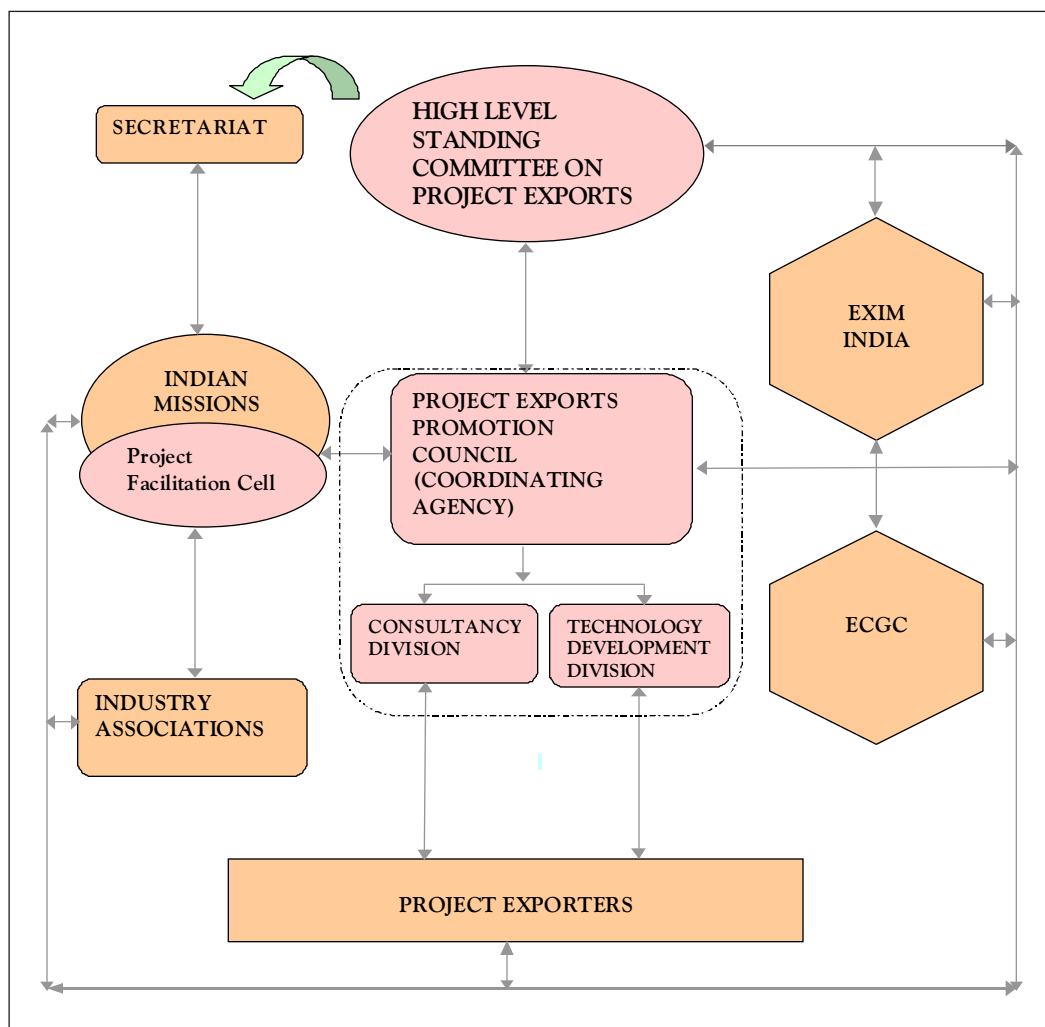
- a) ISO Certifications
- b) Performance Gradings granted by independent grading companies
- c) Availability of trained and certified workmen
- d) Financial standing
- e) Availability of construction plant and machinery.

MOC would ensure the setting up of such a mechanism to ensure that project exporters are facilitated under various support programmes.

9.2.1.2.1 *Structure of the Projects Exports Promotion Council:*

The Projects Exports Promotion Council would be headed by a Director General, who would be a permanent invitee of the High Powered Standing Committee. The Coordinating Agency will include divisions to handle Consultancy and Technology Development. This Council will coordinate efforts with the Project Facilitation Cells of the Indian Missions abroad.

Figure 9.2 Recommended Institutional Coordination



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Export-Import Bank of India (Exim India)

- Shri Anjan Roy, Adviser, FICCI

9.2.1.2.2 *Consultancy and Technology Development Divisions :*

Consultancy Division:

Indian consultants need to create presence in thrust markets to demonstrate Indian capabilities, serve as ambassadors of Indian expertise, create opportunities for follow-on assignments as also downstream linkages for exports of supplies, projects. Higher success rate in securing consultancy contracts would have a multiplier effect for securing turnkey and construction contracts as well as supply contracts.

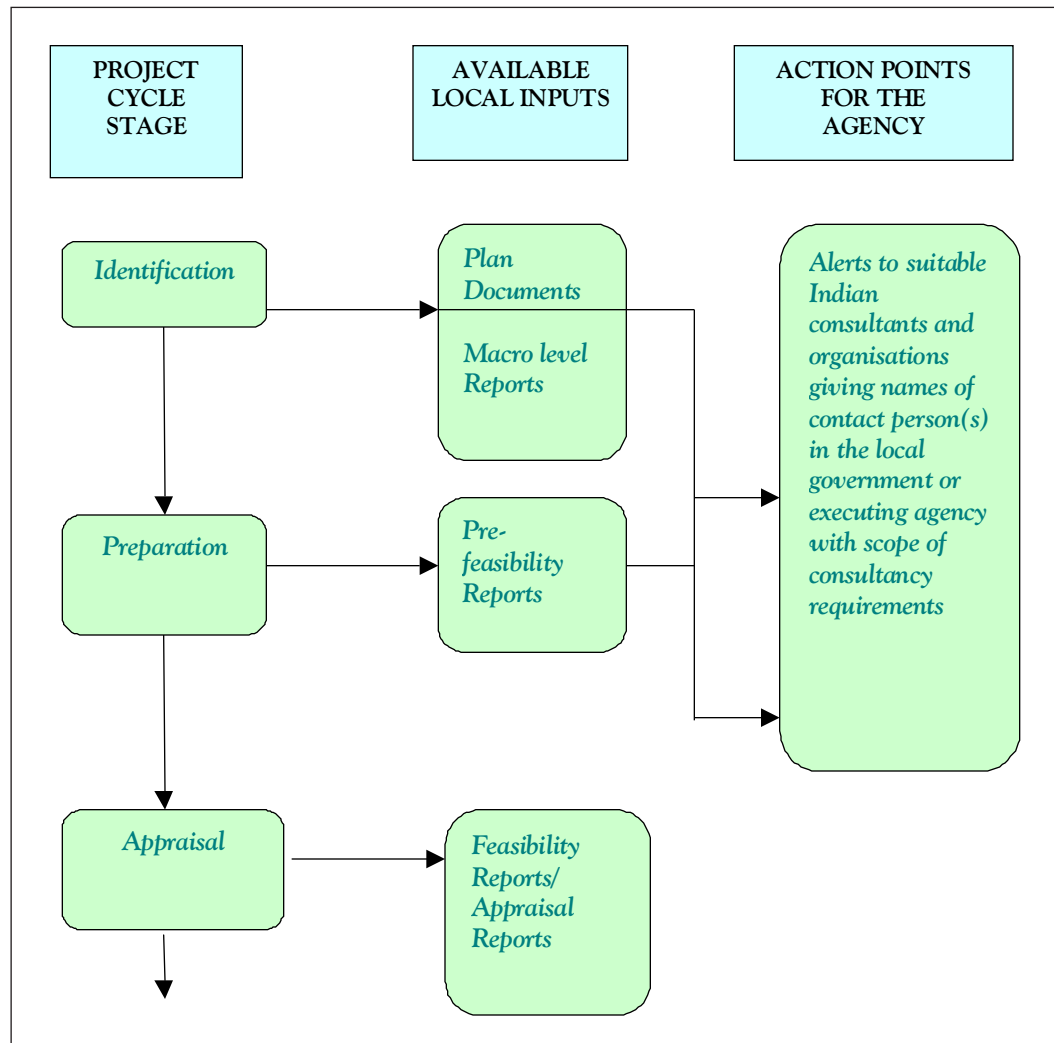
The functions of Consultancy Division of the Projects Exports Promotion Council would include:

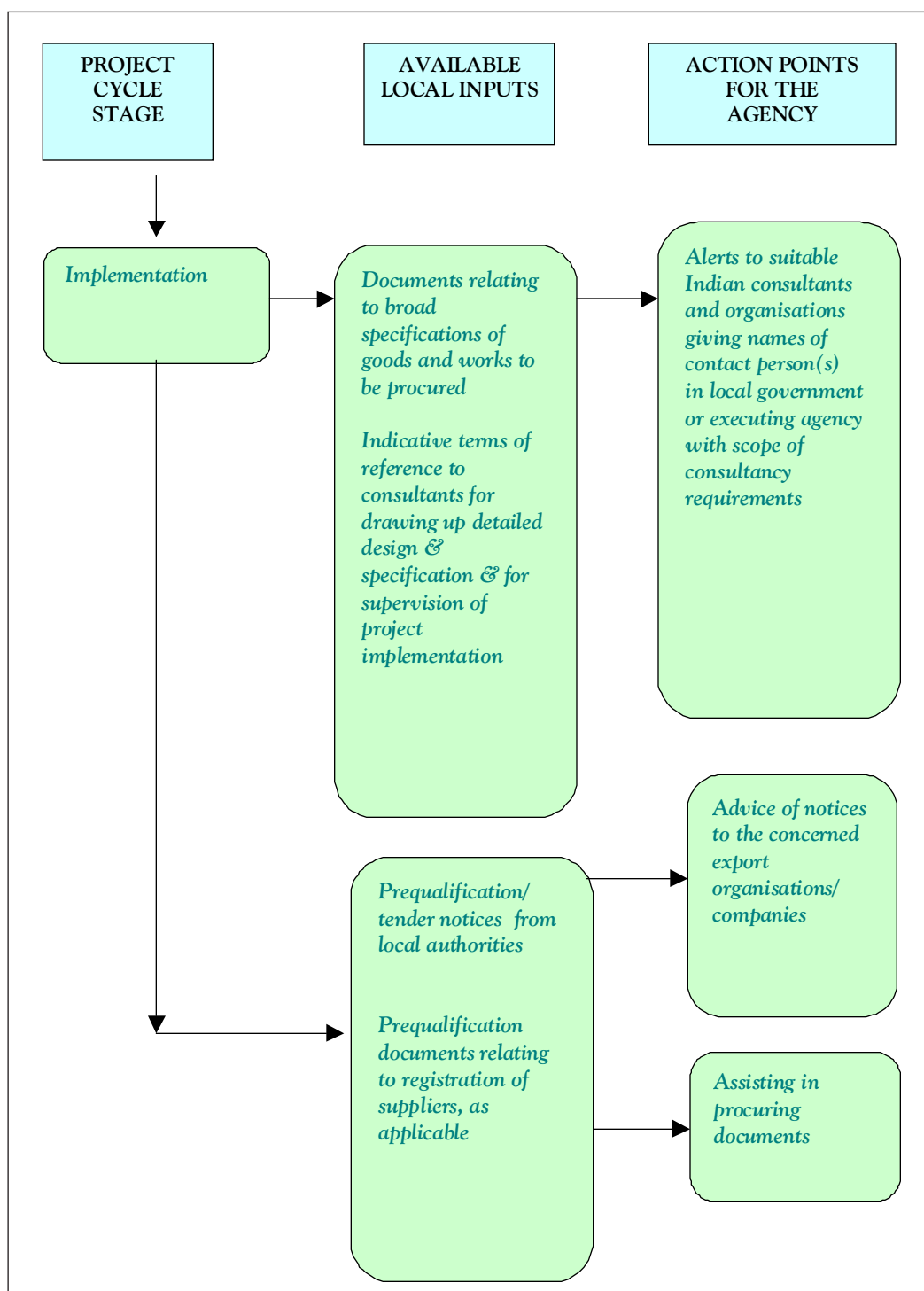
- (i) Identification of business opportunities in a timely manner
- (ii) Providing global market intelligence and contributing to business strategy of the members
- (iii) Creating a databank on suppliers and construction companies with whom Indian consultants can tie up for EPC contracts.
- (iv) Effectively publicizing India's consultancy expertise.
- (v) Establishing linkages with various funding agencies and facilitating registration of Indian companies.
- (vi) Development of the consultancy profession

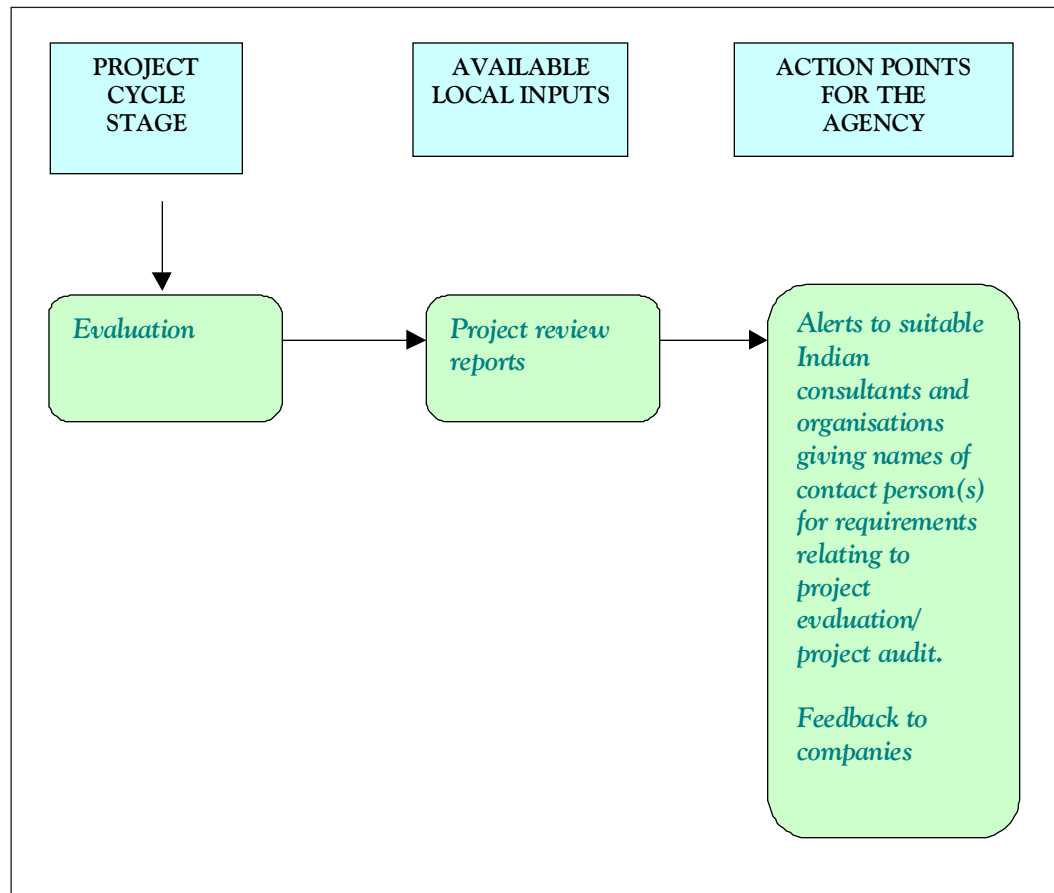
Technology Development Fund:

A Technology Development Fund should be introduced for absorption and development of latest technology in project exports. Indian companies would be facilitated to utilise such technology for executing projects in India and abroad. Absorption of such technology would help Indian Industry to submit comprehensive packages for bids in the international market.

Figure 9.3 Project Information Flow – Role of Coordinating Agency







9.2.2 IMPROVING INDIA'S PERFORMANCE IN PROJECTS FUNDED BY MULTILATERAL AGENCIES

9.2.2.1 Background

Projects funded by multilateral agencies worldwide, present attractive business opportunities for Indian consultants, suppliers and contractors. A strategic coordinated approach would improve prospects of Indian companies securing an increased share in this business segment.

9.2.2.2 *Information*

Indian companies need to track project opportunities from the stage of conceptualisation. Information may also be gathered by Indian missions on upcoming project opportunities in their regions through Project Facilitation Cells on continual basis and information disseminated through PEPC to the Industry.

9.2.2.3 *Skill Development*

Exim India organises from time to time workshops on MFA procurement procedures and norms at which specialist MFA staff while providing information on procurement guidelines, policies and practices also discuss with Indian bidders the nuances, pitfalls and safeguards to be kept in mind. More intense and target specific workshops/training programmes for the benefit of Project Exporters may be organised.

9.2.2.4 *India becoming Member of MFAs*

India needs to quickly become a member of regional development institutions like the Inter-American Development Bank, European Bank for Reconstruction and Development; Central American Bank for Economic Integration, Caribbean Development Bank, West African Development Bank. In most cases, only companies from member countries are eligible to participate in business opportunities provided by projects/ programmes funded by such agencies. This would, inter-alia, provide access to information documents. This will help ensure that Indian companies get timely information and their bids are actively considered for award of contract.

9.3 ***INSTITUTION RELATED RECOMMENDATIONS***

9.3.1 ***CAPACITY BUILDING OF INDIAN MISSIONS***

9.3.1.1 ***Background***

There is a need for Indian missions to play an enhanced role in promotion of project exports. Strengthening and capacity building of Indian missions needs to be considered in order to improve their delivery mechanisms and support structures to assist Indian project exporters. Towards this aim, there is a need for co-opting inputs from the consultancy sector, the industry and the like who have hands-on experience and technical knowhow. Such participation can effectively provide tools/ modes for market research activities and access to timely information regarding the upcoming project opportunities in prospective markets, and also assist in making inroads into the potential countries/ areas/ fields of activity. **[Reference: para 7.2]**

9.3.1.2 ***Formation of Project Facilitation Cell (PFC)***

‘Project Facilitation Cell’ (PFC) may be set up in Indian Missions whose role in promoting Indian project exports would include:

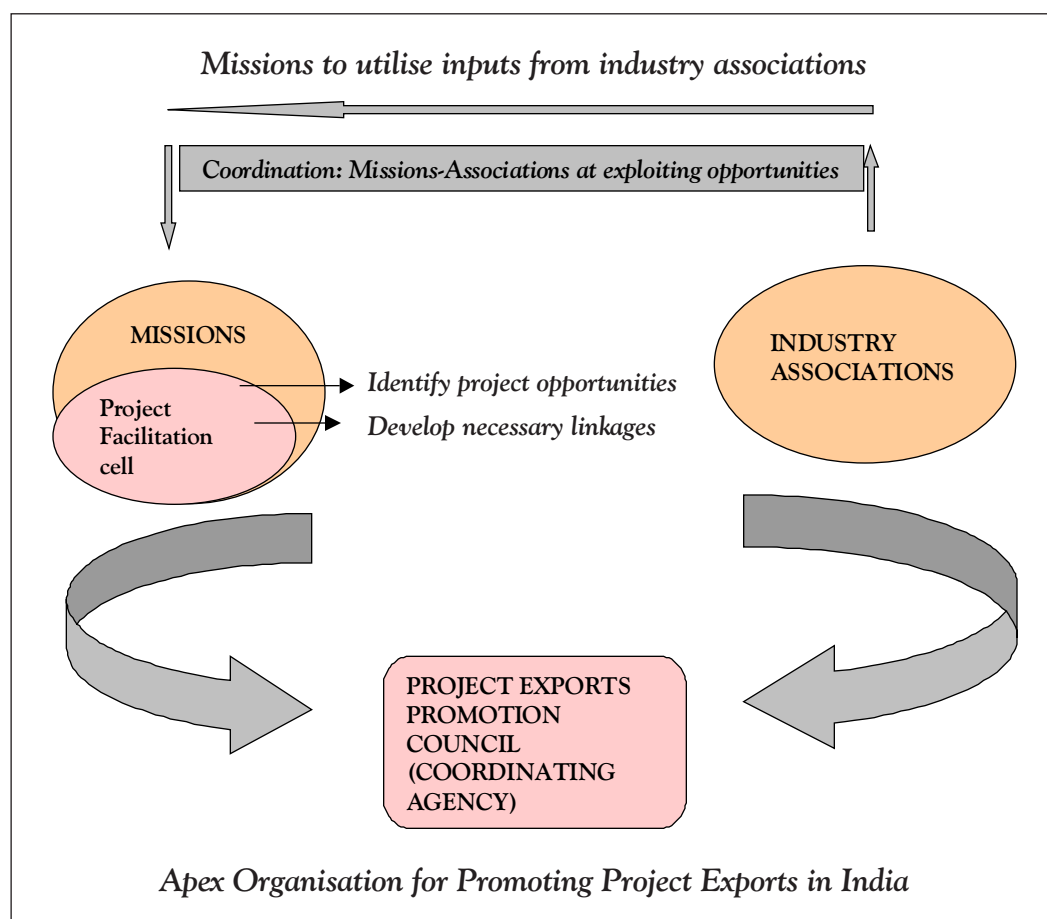
- ☐ identification of business opportunities
- ☐ market intelligence as well as collection, collation and dissemination of information
- ☐ promotion of co-operation between Indian project exporters and foreign clients by assisting in formation of consortia and/ or joint venture arrangements.
- ☐ Projecting Indian capabilities

PFC would be headed by the Deputy to Ambassador/ High Commissioner in the Mission. Members of the Cell will be drawn from representatives of Indian Industry Associations who would be posted to the Cell, and may also include representatives of key Indian companies who have considerable business presence in the respective countries.

PFC in Indian Missions will work in close coordination with the PEPC to ensure timely and effective intervention aimed at identifying and exploiting opportunities, through information sharing, submission of bids and their follow-up through advocacy.

Periodical meetings of concerned Indian missions in thrust countries may be arranged for detailed discussions on approach and strategy to be adopted.

Figure 9.4 Coordination between PFC & PEPC



9.3.2 STRENGTHENING OF INSTITUTIONS

Synergy is required to be enhanced among GOI, Exim India, ECGC and Industry/ Industry Associations to ensure effective and timely participation by Indian companies in overseas projects.

Strengthening of Exim India and ECGC will contribute significantly to enhance institutional support to project exports and facilitate a quantum increase in such exports.

9.3.2.1 Strengthening of Exim India

9.3.2.1.1 Background

☐ Raising of resources:

Since 1996, Exim India has been raising funds by way of private placement of bonds which attract market rates. The present resources of Exim India are by way of market borrowings i.e. non-SLR Bonds and by way of term money, Certificates of Deposits and Fixed Deposits of not less than one year maturity.

☐ Project exports on non-recourse/ limited recourse basis:

Project exports, especially in the sphere of infrastructure sector, are increasingly being awarded on non-recourse/limited recourse basis. Many of these projects are required to be executed on BOOT (Build, Own, Operate & Transfer), BOO (Build, Own & Operate) or BOT (Build, Own & Transfer) basis. Currently, there are no clear-cut guidelines for clearance and execution of these projects overseas. Trends in project financing through BOOT/ BOO projects are presented at *Annexure VII*.

☐ Credit in competitive terms in India:

In the emerging borderless, competitive global trade environment, ECAs in developing countries like India have a special and crucial role to play in strengthening and enhancing the export competitiveness of their companies. These include providing competitive financing, not only for export contract related

transactions, but also for export marketing, export product development, export facilitation activities.

The funding and developmental role for quantum enhancement of project exports can be played by Exim India effectively only if it is supported by the Government with appropriate funding.

9.3.2.1.2 *Key recommendations*

- ❑ Exim India may be made available funds of the order of US\$ 2 billion per year for the next six years to enable them to support projects, especially large valued ones, on more competitive credit terms and with extended periods of repayment. The total funds at their disposal at the end of five years is visualized to be US\$ 12 billion. Export Development Fund (EDF) could be a vehicle for this purpose.
- ❑ The shortfall in export credit financing by commercial banks may be deposited with Exim India at Bank rate on medium/long term basis, with the funds being swapped with GOI for dollar resources on fine terms.
- ❑ The substantial foreign exchange reserves held by RBI can be deployed for the purpose with stipulation that RBI should receive the same interest rates from Exim India as would otherwise be earned by them.
- ❑ Exim India's authorised capital may be increased from Rs. 1000 crores to Rs. 10,000 crores with GOI infusion of capital of Rs. 100 crores every year.
- ❑ Correspondingly, Exim India as an institution must evolve, expand and strengthen its reach, coverage as a major international financial institution to support project exports from India.

❑ *Interest Equalisation Support to Exim India for its Lines of Credit (LOCs)*

In a number of countries, Governments operate an interest make-up/ equalisation system under which the Government makes good the difference between market interest rates and concessional export finance rates allowing a minimum assured margin to ECAs for export credit loans extended by them. This enables ECAs to provide exclusive support to their national exports by extending credit at competitive costs ensuring that their national exports do not suffer for want of competitive credit. GOI may support Exim India through an Interest Equalisation Scheme to be decided by the proposed High Level Standing Committee.

❑ *Route GOI LOCs through Exim India*

GOI has been extending LOCs to developing countries mainly in Asia and Africa, as part of bilateral economic co-operation programmes. These LOCs are tied credits, enabling the borrower countries to source eligible goods and services from India. Generally, the LOCs cover purchase of plant and machinery and allied services, turnkey projects, eligible supply contracts contracted by Indian exporters with overseas buyers approved by the borrower governments.

Exim India extends LOCs to overseas entities to support India's export to the borrower countries. A synergy may be created between Exim India and GOI. This would be in keeping with the comparable practices followed by competitor countries like Brazil, China and Japan, by which, Exim India could operate all the Lines of Credit (LOCs) extended by GOI to overseas governments, with Exim India, using its own funds but with Government support for interest differential and repayment guarantee, along the lines of the proposal for a Line of Credit of US\$ 200 million to Iran, earlier approved by GOI.

Advantages of channeling GOI LOCs through Exim India over the existing arrangement

(i) Integrated Administration of the GOI LOCs

Exim India can undertake an integrated administration of the GOI LOCs which would involve processing requests for coverage of specific contracts under the LOCs, disbursement of funds to exporters, documentation aspects, maintenance of accounts and keeping records of repayments under the LOCs.

(ii) Marketing of GOI LOCs

Exim India, with its institutional linkages and due to the inherent synergy with its operations, can market the GOI LOCs effectively through its network of offices and its close linkages with various industry associations and export promotion councils, both in India and overseas.

□ Activating Export Development Fund of Exim India

Under the Exim Bank Act of Exim India, GOI has appointed Exim India to administer the Export Development Fund (EDF) on behalf of GOI. All credits into this special fund can be made by GOI by way of loans, grants, donations or benefactions from government or any other sources in or outside India. Any utilisation out of this fund can be made only with the approval of GOI. EDF can be used, with the approval of GOI, only to support such transactions which may not be commercially viable but is considered necessary by GOI as a matter of priority in the interests of the international trade of the country. To enable Exim India to provide long-term funding on competitive soft terms for project exports, it is suggested that GOI may consider funding the EDF in US Dollars over a period. EDF could be an appropriate vehicle for making available substantial funds for the identified purpose of supporting project exports.

9.3.2.2 *Strengthening of ECGC*

9.3.2.2.1 *Background*

ECGC in India needs to strengthen its financial position which should result in providing cost-effective credit insurance schemes to the exporters in India. Due to an unfavourable claims ratio under the projects exports (mainly arising out of claims on Iraq related covers), ECGC has been adopting a cautious approach while considering proposals for large value projects and/or projects involving longer credit periods involved. When reinsurance is available, ECGC considers proposals in case of large value projects and/or projects with longer period. The claims payment have been made out of its own resources unlike the treasury support from the national governments to ECGC's counterparts in respect of claims like the Iraq related covers. In other countries like UK, Germany and France, in a calamitous claims situation like that of Iraq, the national governments have paid out of their budgets without affecting the financial position of credit risks insurers.

The credit insurance system of ECGC, excluding the claims paid on account of Iraq related covers, is a viable business proposition. This has enabled the project exporters and exporters in these countries to continue to avail the desired level of support from the credit risk insurers.

9.3.2.2.2 *Specific recommendations on need of Government support to ECGC:*

- ☐ Government should extend support to ECGC to provide service in the same manner as a project exporter in a competing country would be getting from his export credit insurance provider (counterpart of ECGC in competitor's country).
- ☐ ECGC should be reimbursed the losses on account of political risks by Government of India by taking over the debts of Iraq. It has been done so in other countries in similar situations where the national governments have paid out compensations out of their budgets without affecting the financial position of credit risk insurer.

- ❑ Strengthening of equity base of ECGC to ensure capital adequacy as per accepted norms of credit of credit insurance business.
- ❑ Wherever reinsurance is possible to arrange, if the costs are prohibitive, governmental support in the pricing to ensure smooth cash flow and lesser financial burden for exporter should be considered.
- ❑ (a) Government Guarantees to enable them to cover high value project risks without the need of reinsurance, which will make them competitive and also provide cover in countries of emerging markets like Africa & Latin America.
- (b) In the absence of reinsurance, ECGC should be in a position to draw support from the Government National Interest Account etc., or even to operate the cover on behalf of the government.
- (c) The underwriting of risks may be done on behalf of and to the account of government.
- ❑ Yearly allocation currently to equity takes care of only short term underwriting capacity. A quantum jump say from the present level of Rs. 50 crores to Rs. 300 crores per year for six years will enable ECGC to undertake at least 5 times of that as additional maximum liability.
- ❑ The proposal regarding National Interest Account as is prevalent in other countries like UK, Australia, Korea etc. should be implemented. This enables cover for project exports which otherwise do not meet the normal commercial underwriting criteria.
- ❑ Correspondingly, ECGC, as an institution, must evolve and grow itself to function as a significant credit insurance agency to support project exports from India.

- Shri G.S.Dutt, Joint Secretary, Department of Economic Affairs, Ministry of Finance & Company Affairs - CHAIRMAN
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- Smt. Geetha Muralidhar, Deputy General Manager, Export Credit Guarantee Corporation of India Ltd.
- Shri S.R.Rao, Chief General Manager, Export-Import Bank of India - SECRETARY

Sectoral Distribution of World Bank Loans (1999-2001)

(US\$ billion)

Sector	1999	2000	2001
<i>Agriculture & Environment</i>			
Agriculture	2.51	1.34	1.46
Environment	0.54	0.51	0.52
<i>Human Development</i>			
Education	1.34	0.68	0.79
Health, Nutrition & Population	1.11	0.99	1.05
Social Protection	2.68	0.99	1.67
<i>Economic Policy</i>	9.89	1.29	1.32
<i>Infrastructure</i>			
Transportation	3.02	1.69	2.97
Urban Development	0.71	0.62	0.55
Water Supply & Sanitation	1.05	0.90	0.55
Telecommunications	0.11	0.11	0.07
<i>Public Sector Management</i>	0.96	2.44	2.57
<i>Finance & Private Sector Development</i>			
Finance	2.32	1.68	2.23
Private Sector Development	1.34	0.16	0.51
<i>Energy</i>			
Electric Power & Other Energy	0.44	0.99	0.82
Oil & Gas	0.02	0.17	0.08
Others			
Mining	0.32	0.05	0.04
<i>Multisector</i>	0.64	0.65	0.05
Total	29.00	15.28	17.25

Source: Annual Reports (1999-2001), World Bank

Regional Distribution of World Bank Loans (1999-2001)

(% share)

Region	1999	2000	2001
Latin America & Caribbean	27	26	30
Africa	7	14	20
South Asia	9	14	19
Europe & Central Asia	18	20	16
East Asia & Pacific	34	20	12
Middle East & North Africa	5	6	3
Total	100	100	100

Source: Annual Reports (1999-2001), World Bank

Sectoral Distribution of AfDB's Loans (1999-2001)

(US\$ million)

Sector	1999	2000	2001
Agriculture and Rural Development	457.92	228.07	337.40
Industry, Mining & Quarrying	250.68	6.00	33.81
Transport	285.54	203.70	414.93
Water Supply and Sanitation	..	130.38	87.78
Power Supply	..	50.20	118.26
Communication	99.69
Finance	..	250.55	331.34
Social	153.05	292.30	249.05
Environment	..	2.97	12.05
Urban Development	..	2.51	..
Public Utilities	132.94
Multisector	408.10	227.48	516.23
Others	82.64	1190.91	780.76
Total	1770.87	2585.07	2981.30

Source: Annual Reports (1999-2001), AfDB

Regional Distribution of AfDB's Loans (1999-2001)

(% share)

Region	1999	2000	2001
Central Africa	4	3	4
East Africa	8	8	21
North Africa	40	14	26
Southern Africa	25	13	6
West Africa	14	12	16
Multiregional	9	50	27
Total	100	100	100

Source: Annual Reports (1999-2001), AfDB

Sectoral Distribution of AsDB's Loans (1999-2001)

(US\$ million)

Sector	1999	2000	2001
Agriculture and Natural Resources	430.40	1051.20	603.48
Energy	719.00	1141.60	662.90
Finance	69.30	185.40	565.02
Industry and Nonfuel Minerals	407.00	350.00	86.00
Social Infrastructure	1386.62	1400.16	492.10
Transport and Communications	993.00	1344.20	1425.50
Multisector	694.25	127.82	757.00
Others	279.00	250.00	747.00
Total	4978.57	5850.38	5339.00

Source: Annual Reports, (1999-2001), AsDB

Regional Distribution of AsDB's Loans - Major Borrowers

(% share)

Country	1999	2000	2001
India	13	23	28
China	25	15	19
Pakistan	8	12	18
Indonesia	20	14	9
Bangladesh	7	5	6
Vietnam	4	4	5
Sri Lanka	4	4	3
Philippines	2	9	2
Other DMCs	17	14	10
Total	100	100	100

Source: Annual Reports, (1999-2001), AsDB

BIDS SUBMITTED

Period : 1995-2000

<i>Particulars</i>	<i>Nos.</i>	<i>Value (Rupees Crores)</i>
Total	256	6878.13

- ☐ **Sectorwise classification for bids submitted (numberwise & valuewise) by Indian companies:**

<i>Sectorwise</i>	<i>Nos.</i>	<i>% of total</i>	<i>Value (Rupees Crores)</i>	<i>% of total</i>
<i>Transport</i>	<i>107</i>	<i>41.80</i>	<i>3503.52</i>	<i>50.94</i>
<i>Power</i>	<i>97</i>	<i>37.89</i>	<i>2686.32</i>	<i>39.06</i>
<i>Health</i>	<i>19</i>	<i>7.42</i>	<i>109.13</i>	<i>1.59</i>
<i>Education</i>	<i>8</i>	<i>3.12</i>	<i>25.49</i>	<i>0.37</i>
<i>Telecommunication</i>	<i>6</i>	<i>2.34</i>	<i>211.41</i>	<i>3.09</i>
<i>Water Supply & Sanitation</i>	<i>5</i>	<i>1.97</i>	<i>77.54</i>	<i>1.15</i>
<i>Industry</i>	<i>3</i>	<i>1.17</i>	<i>62.41</i>	<i>0.91</i>
<i>Agriculture</i>	<i>3</i>	<i>1.17</i>	<i>6.49</i>	<i>0.01</i>
<i>Others</i>	<i>4</i>	<i>1.56</i>	<i>30.40</i>	<i>0.44</i>
TOTAL	256	100	6878.13	100

This summary has been collated primarily from cases which have been referred to Exim India for clearance in pre-bid and post award stages.

❑ **Regionwise classification for bids submitted (numberwise & valuewise) by Indian companies:**

Regionwise	Nos.	% of total	Value (Rupees Crores)	% of total
<i>Africa</i>	80	31.25	2098.01	30.50
<i>South Asia</i>	74	28.91	2948.54	42.87
<i>East Asia</i>	55	21.48	1024.84	14.89
<i>Europe & Central Asia</i>	36	14.07	620.42	9.02
<i>Latin & South America</i>	11	4.29	186.32	2.71
TOTAL	256	100	6878.13	100

❑ **List of countries where significant number of bids were submitted by Indian companies:**

<u>Country</u>	<u>No. of bids submitted</u>
<i>Bangladesh</i>	33
<i>Nepal</i>	32
<i>Ghana</i>	24
<i>Vietnam</i>	17
<i>Philippines</i>	14
<i>Tanzania</i>	14
<i>Ethiopia</i>	8
<i>Zambia</i>	9
<i>Indonesia</i>	7

CONTRACTS SECURED*Period : 1995-2000*

<i>Particulars</i>	<i>Nos.</i>	<i>Value (Rupees Crores)</i>
Total	84	1004.92

- ☐ Sectorwise classification for contracts secured (numberwise & valuewise) by Indian companies:

Sectorwise	Nos.	% of total	Value (Rupees Crores)	% of total
<i>Power</i>	32	38.09	341.24	29.44
<i>Transport</i>	31	36.90	395.72	27.84
<i>Health</i>	10	11.92	23.31	2.98
<i>Telecommunication</i>	3	3.57	112.38	14.38
<i>Water Supply</i>	3	3.57	4.87	0.62
<i>Infrastructure</i>	2	2.38	133.82	24.33
<i>Others</i>	3	3.57	3.25	0.41
TOTAL	84	100	1004.92	100

- ❑ Regionwise classification for contracts secured (numberwise & valuewise) by Indian companies:

Sectorwise	Nos.	% of total	Value (Rupees Crores)	% of total
<i>Africa</i>	30	35.71	325.23	38.23
<i>South Asia</i>	23	27.38	282.22	33.11
<i>East Asia</i>	18	21.43	172.17	20.03
<i>Europe & Central Asia</i>	12	14.29	81.10	8.38
<i>Latin & South America</i>	1	1.19	1.97	0.25
TOTAL	84	100	1004.92	100

- ❑ List of countries where significant number of contracts were secured by Indian companies:

<u>Country</u>	<u>No. of contracts secured</u>
<i>Bangladesh</i>	10
<i>Tanzania</i>	9
<i>Nepal</i>	8
<i>Ghana</i>	8
<i>Philippines</i>	7

Major contracts secured during 2001-2002

CONTRACTS	COUNTRY	RUPEES CRORES
TURNKEY CONTRACTS		
Refinery dismantling project	Netherlands	243
Transmission Line Project	Oman and Algeria	283
Supply and erection of gas turbine generators for power projects	Iraq and Australia	553
Electro-mechanical work for an air force base project	Qatar	206
Heating, ventilation and air-conditioning work for Queen Mary ship	France	114
Telecom Network Project	Saudi Arabia	131
CONSTRUCTION CONTRACTS		
Road rehabilitation and rail overbridge project	Bangladesh	72
Steel water storage tanks and transportation project	UAE	63
SUPPLY CONTRACTS		
Export of coated steel pipes	Germany	175
Ferro-chrome manufacturing equipment	Iran	29
Stainless steel slabs	USA	264
Welded steel pipes	Nigeria	94
CONSULTANCY CONTRACTS		
Operation and maintenance of cement plant	Saudi Arabia	66
Modernisation of petroleum refining plant	Kuwait	8
Managing contract for a petrochemical company	Iran	7
Road improvement and maintenance project	Bangladesh	7
Maintenance of locomotive	Malaysia	131
Study of privatisation of a regional development bank	Uganda	3

Project finance technique is usually used to finance large scale infrastructure projects and industrial projects in view of constrained public expenditures, increasing emphasis on the role of the private sector and a reduction in aid flows to developing countries.

Peter Nevitt, in his book “Project Financing”, has defined Project Finance as “A financing of a particular economic unit in which a lender is satisfied to look initially to the cash flows and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan.”

The structure of project financing attracts financiers to a proposed project on the basis of the project’s revenues, rather than the general assets of the sponsor. As a result, the sponsor can avoid providing financiers with ‘recourse’ to its general assets in the case of poor project performance, which in turn allows the sponsor to finance the project off its balance sheet.

This structure permits financing of a project whose sponsors are either (a) unwilling to expose their general assets to liabilities to be incurred in connection with the project (or are seeking to limit their exposure in this regard) or (b) do not enjoy sufficient financial standing to borrow funds on the basis of their general assets. This structure also provides a means for sponsors to minimise their exposure to the risks associated with the project by attracting a variety of investors or lenders with which project risks are shared in exchange for a share of project revenues. The structure, therefore, centres around the viability of the proposed project rather than the financial standing of the sponsor. It is financed on the assumption that the project will generate cash surplus after operating cost, debt service and dividend payments made to lenders and shareholders. This is called non-recourse financing (NRF) as the same is not included in the balance sheet of the sponsor, is outside existing loan covenants and has minimal impact on existing borrowings. This type of project finance is a solution whereby a tailor made financial package is developed with a supporting security structure that will enable the sponsor to participate in a project which would otherwise be beyond his means.

BOOT means Build, Own, Operate, Transfer. This and similar expressions like BOO, BOT are used to denote projects under which private sector companies build a public sector project and operate it. BOOT projects are transferred to the government at the end of the relevant period. The company undertaking the project

receives payment for the project out of the income earned by the project. As a result, the government agency permitting execution of the project does not have to borrow for the project and also does not need to maintain the project. BOOT deals are especially entered into in developing countries and eastern Europe on account of privatisation and liberalisation of their economy.

Any project financing or BOOT transaction involves major network of interrelated contracts. These projects involve a large numbers of entities and highly complicated cross agreements. As a result, very few projects have been concluded though negotiations are attempted for many projects. Multilateral funding agencies and national export credit agencies are usually present in large project financing and BOOT deals.

As project gets larger, it becomes more difficult to find a single financial source even one which will accept part of the risk. Advice from experts is needed to guide the lengthy process of putting together a large financing package at lowest possible cost. Project Finance combines project appraisal methods needed for more conventional means of raising finance with its own approach to the various sources of finance. Because such sources are project oriented, they can be customers and suppliers as well as financial institutions. Method of appraisal are complex but are justified by the large sums involved and the possibilities they provide of reducing the costs of the project and minimising the associated risks. Common interest of all sponsors and participants is minimising risks and costs. Close analysis and detailed quantification results in success of the project. The appraisal would also include assessment of creditworthiness, track record and management capabilities of the project sponsor, guarantor as well as other parties such as EPC contractors, product purchasers, suppliers etc. A rigorous appraisal of the feasibility of the project is an automatic process before financial commitments are made. Official agencies such as the World Bank require a full appraisal of any proposed project not only in order to review its financial viability but also to measure its social, economic and environmental impact on the host country.

Project financing is more expensive than traditional lending since it involves additional risks and extra work for the banks and lawyers and others concerned on evaluating the project and negotiating complex documents. On the other hand the borrowers and sponsors are in advantageous situation as part or whole of the payment risk is shifted to lenders.

Although the banks assume all or part of the repayment risk, when the project is under implementation, usually the sponsor is required to take on a major part of the risk during execution stage such as delay in completion, abandonment, cost overruns and failure to achieve any stipulated performance levels, shortfall in output costs, availability of workforce during project execution stage as well as operation stage, market risk apart from equity contribution from the sponsors. Other risks involved in project financing include political risks fluctuations in exchange and interest rates, volatility in world prices, inflation and imposition of new tariffs.

Globalisation in many countries has resulted in development of various forms of project financing. China offers the biggest prospective market for project financing in Asia followed by South East Asian countries. East European countries especially Poland, Hungary and the Czech Republic are preferred by lenders and sponsors. Russia can attract companies for setting up projects in sectors such as oil, gas and pipeline construction. EBRD's lending to these countries is used as leverage to attract private investment. Finnish Guarantee Board has supported several power projects on build, operate and transfer basis and telecommunications projects in emerging countries in Asia.

A project financing arrangement involves a multitude of separate agreements like creation of the project company, project management agreements, joint venture agreement between project sponsors. There will also be mortgage documents, assignments of rights under related contracts, escrow accounts and pledges of shares in the project company including charge over dividend rights.

Advantage of using Project Finance approach :

- ☐ Credit sources may be open to the project entity which would not be available to the sponsor alone.
- ☐ Guarantees will be available to the project entity which likewise would not be available to the sponsor alone.
- ☐ A measure of asset protection is introduced through other investors taking equity participation in the project
- ☐ The sponsor retains the ability to borrow from other means.

These Project Finance loans can be -

- ☐ With recourse when appropriate guarantees and/or unconditional 'take or pay' contracts provide security to the lenders.
- ☐ With limited recourse - when guarantees are limited as to amount or unconditional 'take or pay' contracts
- ☐ Without recourse where lenders look for payment only to the future projects/surplus generated by the project itself.

The sponsor may accept the credit risk during the period upto commencement of production and thereafter transfer the risk to lenders.

Conditions for Project Finance :

- ☐ Stable and friendly political environment
- ☐ Demand for output
- ☐ availability of raw material over the lifetime of the project
- ☐ adequate transport for both input and output
- ☐ availability licences and permits
- ☐ availability of electricity, water and other infrastructural facilities
- ☐ tried technology appropriate to the country
- ☐ independent feasibility study
- ☐ availability of appropriate professional and operating personnel
- ☐ adequate security from the sponsors or guarantors (government of host country)
- ☐ accurate project and production cost estimate
- ☐ construction and turnkey contract by experienced and reliable contractors
- ☐ strong credit support during construction and commissioning.

Sources of Finance :

- ☐ Project sponsors and their foreign partners
- ☐ national and international development banks
- ☐ export credit finance agencies
- ☐ domestic banks
- ☐ eurocurrency loan from capital market
- ☐ leasing
- ☐ finished product finance - advance payment from potential customer, forward purchase of finished product.

Some items need short term loan. Capital goods need long term loans upto 10 years. So banks with experience in project financing are often able to negotiate favourable terms of behalf of the sponsors of a project.

Benefits to the economy as a whole :

- (a) Project Revenue
- (b) Better loan terms
- (c) Low equity participation
- (d) Creation of secure markets for goods and services
- (e) Miscellaneous Fees
- (f) Import of new technology and training of personnel
- (g) employment creation during construction and operation phases
- (h) increased tax revenues from the entity
- (i) improved infrastructure which has to be developed as a part of the project
- (j) saving of foreign exchange

Project Exports

In January 2000, Nicaragua's largest diesel-fuelled power plant near Tipitapa, east of the capital city, Managua, was inaugurated. This is Nicaragua's first project to be financed on non-recourse basis with the help of the Inter-American Development Bank. The Ugandan government concluded implementation and power purchase agreements for a Hydro Power Project. The construction of the plant, operated on a 30-year concession, and its associated transmission lines are estimated to cost around US\$ 500 mn. The project is supported by IFC and African Development Bank as well as partial risk guarantees from other multilaterals.

Large volume of project financing is expected in the coming years, particularly in oil, gas, power and ports sectors.

□ Background:

Export credit enables exporters in accepting and efficiently executing export orders. Export credit is necessary for both before and after the shipment of an order. While pre-shipment credit is required for timely production, packaging and shipment of orders, post-shipment credit facilitates in sustaining exporters' business operations while waiting for payments from importers of goods. The importance of timely and adequate credit to exporters needs no emphasis. Export Credit augments international competitiveness of exporters of the country, crucial for boosting Exports, which needs to be recognised as a National Priority. Several committees and commissions on export credit in the country have highlighted the importance of credit in export function and thus the Government have assigned a special role to banks/FIs in this regard. Apart from assigning 'priority status' to export finance, RBI has also been extending refinance support to banks to enable the latter to adequately finance export activities in the country. At this juncture, it would be worthwhile to take a glance at the trends in the export credit from institutional agencies (scheduled banks). Further, a better picture of export credit can be had, if the same is juxtaposed with that of gross and net bank credit. The details of sectoral deployment of Bank Credit are given in the Table below:

SECTORAL DEPLOYMENT OF BANK CREDIT (March 1995 to June 28, 2002)

(Rs Crore)

Sectors	March 31 1995	March 29 1996	March 28 1997	March 27 1998	March 26 1999	March 24 2000	March 23 2001	March 22 2002	June 28 2002
Net Bank Credit (NBC)	192,424	228,198	245,999	297,265	339,477	398,205	467,206	535,063	549,841
Priority Sector	64,161	73,329	84,880	99,507	114,611	131,827	154,414	175,259	170,949
a) Agriculture sector	23,983	27,077	31,442	34,869	39,634	44,381	51,922	60,761	60,707
b) SSI Sector	27,638	31,884	35,944	43,508	48,483	52,814	56,002	57,199	55,579
Export Credit	25,051	29,590	30,008	33,947	35,891	39,118	43,321	42,978	42,601
As % of NBC									
Priority Sector	33.3	32.1	34.5	33.5	33.8	33.1	33.1	32.8	31.1
a) Agriculture sector	12.5	11.9	12.8	11.7	11.7	11.1	11.1	11.4	11.0
b) SSI Sector	14.4	14.0	14.6	14.6	14.3	13.3	12.0	10.7	10.1
Export Credit	13.0	13.0	12.2	11.4	10.6	9.8	9.3	8.0	7.7

Source: Reserve Bank of India, Report of Trends and Progress in Banking, various issues

❑ Export Credit vis-à-vis Bank Credit

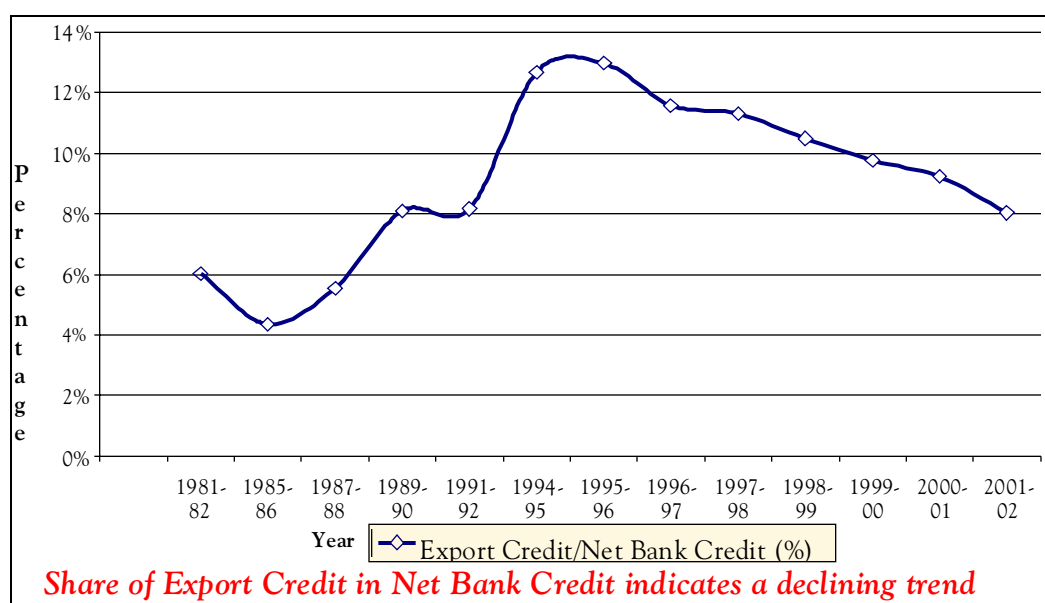
CAGR (%p.a.)	1981-2001	1995-2001
Export Credit (EC) Outstanding	21.60	9.40
Net Bank Credit (NBC)	15.55	15.76
Exports	20.49	13.99

Source: RBI Annual Report 2000-2001

RBI Report on Trends & Progress of Banking in India

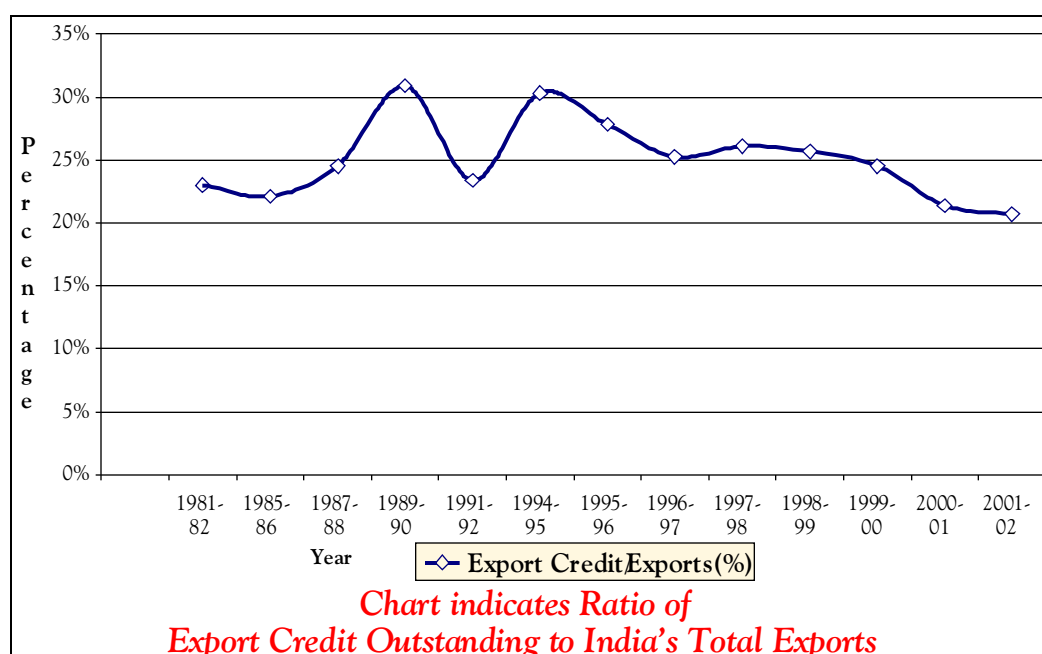
The above table shows that in the second half of nineties, growth in Export Credit has been lower than Net Bank Credit unlike in the past.

The trend in export credit above reflects that, for the period 1981-2001, the compounded annual growth rate (CAGR) of export credit outstanding was 21.6% p.a., while that of bank credit (both gross and net terms) stood at approximately 15% p.a. However, the period of 1995-2001 has witnessed a trend reversal with export credit outstanding growing at 9.4% p.a. (-0.6% in 2001-02), whereas the bank credit growth rate exceeded 15% p.a. The fall in export credit as a percentage of net bank credit (as shown in the following chart) coupled with the decelerating export growth in 2001-02 as also cost and availability of export credit are issues that need to be addressed.



□ Export Credit vis-à-vis India's Exports

The growth rate of export credit outstanding compared with India's exports (on value terms) shows a reverse pattern. During the period 1981-2001, the export credit growth rate was approximately 20% p.a. with exports (in Rupee terms) growing at approximately the same rate. However, for the period 1995-2001, export credit growth rate was 9.4% p.a. (-0.6% in 2001-02) compared with exports growing at a rate of 13.9% p.a. The following chart indicates the ratio of export credit outstanding to India's total exports, which clearly highlights a declining trend in ratio of credit to India's exports.



At the aggregate level, there seems to be a discernible change in the composition of export credit over the years in favour of pre-shipment (popularly known as packing credit). As evident from the following Table, the share of packing credit to the total export credit although fluctuated between 1990 and 2000, the same has indeed declined between these two reference years. The falling interest rates on domestic credit and less than proportionate fall in export credit, leading to a negligible difference between cost of raising funds for domestic and export activities (this is very true in the case of large corporates who account for a large share in total exports) might explain for the falling share of packing credit.

□ Utilisation Pattern of Credit Facilities:

The utilization pattern of the credit facilities (pre and post-shipment credit) granted by banks to the exporters, have been examined. This exercise would not only provide a rough idea on the adequacy of credit, but also succinctly indicates as to whether banks have been able to properly assess pre and post-shipment credit requirement of exporters. However, as indicated elsewhere, a major limitation of this exercise is that in the absence of actual disbursement figures, outstanding figures have been used. The following table suggests that the utilization of both pre and post-shipment credit have shown negative growth rates, indicating that the amount outstanding as at the end of March (of various reference years) have been reducing. What is worth noting is that the utilization of export credit has been falling since 1995. The following table shows the utilisation rates (5) of Packing Credit, Post-Shipment Credit and Total Export Credit as against Sanctioned Limits.

Utilisation rates (%) of Packing Credit, Post-Shipment Credit and Total Export Credit as against the Sanctioned Limits

March of	Packing Credit	Post-Shipment	Total Export Credit
1990	80	77	79
1991	78	79	78
1992	79	80	80
1993	75	72	73
1994	71	72	71
1995	73	77	75
1996	78	70	74
1997	76	64	70
1998	78	68	73
1999	74	73	73
2000	74	67	70
Average	76	72	74
Annual gr	-0.48	-1.62	-1.05

Source: RBI Annual Report 2000-2001
RBI Report on Trends & Progress of Banking in India

□ Priority Sector Lending

The target for aggregate advances to the priority sector is 40 per cent of the net bank credit for domestic banks and 32 per cent of net bank credit for the foreign banks. The priority sector lending is an important function of India's commercial banks. It includes lending to agriculture, small-scale industries (SSI), transport operators, etc. The requirement for domestic banks to lend a minimum of 12 per cent of advances as export credit is over and above the priority sector. The foreign banks operating in India have to allocate a target of 32 per cent of their net bank credit (NBC) to priority sector and export finance with sub-sectoral targets of 10 per cent for SSI and 12 per cent for exports. The proportion of gross bank credit allocated to exports has witnessed significant changes during the last two decades.

The public and private sector banks with shortfalls in priority sector lending and/or agricultural lending as at end-March 2002 were advised to contribute to the Rural Infrastructure Development Fund (RIDF)-VIII established in NABARD with a corpus of Rs. 5,500 crore, as announced in the Union Budget for 2002-03. In the case of RIDF-I to VI, the rate of interest on deposits placed in the Fund was uniform for all banks irrespective of the extent of their shortfall. Effective RIDF-VII, the rate of interest on RIDF deposits is linked to the banks' performance in lending to agriculture. Accordingly, banks receive interest at rates inversely related to their shortfall in agricultural lending. The foreign banks falling short of priority sector targets as at end-March 2002 have to deposit amounts equivalent to the shortfall with the Small Industries Development Bank of India (SIDBI) for one year.

Currently, the export credit to net bank credit is less than 8% (discussed in Para 2 above). The difference of 4% pertaining to the shortfall amounts to more than Rs. 21,000 crore (as of June 30, 2002). However, it may be mentioned that though domestic banks are required to lend a minimum of 12 per cent of advances as export credit, there are no measures being taken that require domestic banks to contribute this shortfall for an arranged purpose as is being done in the above cases.

- ❑ **Export Credit Insurance in India**
- ❑ Export Credit Insurer's involvement in the Medium and Long term (M/LT) business is very different from that in the Short Term business. Foremost is the horizon of risk which is much longer. Most of the time the exposure involved will be longer than the total premium income in one given year. Risks are not only high but also difficult to predict.. The gross uncertainties faced do not get solved even by host country's guarantees. The absence of reinsurance market means, each case is considered as a large block of exposure on the insurer's books for a long drawn period of many years.
- ❑ It has been observed lately that Medium/ Long term flows from international financial institutions is declining. With the official aid reducing, ECAs are more involved in project financing. There are instances of not only underwriting risks of Sovereign governments but also that of states, countries and cities. The demand for investment insurance is also going up on ECAs.
- ❑ Medium/ long term underwriting is done on a case by case basis and an individual policy is issued either as a Buyer's credit or a Line of Credit. This results in high premium rates, sometimes as high as even 10% of project cost. The claim incidence have been very high in the past and huge compensations made by ECAs have led to a greater interest being evinced by Ministry of Finance of governments in various countries who go in detail into the rationale, underwriting, cost of cover and even accounting procedures.
- ❑ The reasons for political risk underwriting, particularly for medium/ long term business being done by Public Sector and that too with the backing of Government in most of the countries are:
 - (i) Risks to be covered are unpredictable and cannot be subject to commercial actuarial analysis and consequent pricing.
 - (ii) Risks come in large lumps in the form of high value contracts, projects or investments.
 - (iii) Risks is required for long periods inclusive of manufacturing, construction, maintenance, credit periods, etc.
 - (iv) In the case of high risk markets or emerging markets or economies in reform in difficult circumstances, private insurers will have no experience and little appetite for risks.

- (v) Another inhibiting factor is the unacceptable level of risk aggregation i.e. overall exposure to a country builds up quickly and takes too long to run off.
- (vi) In the case of loss situation, recovery is possible either bilaterally or on a government to government basis or under the auspices of multinational forums like Paris Club.
- (vii) The governments are forced to involve themselves due to absence of reinsurance.
- (viii) The role of creditor governments in exporting or investing countries have gained importance. This is to ensure matching the credit terms more closely to the actual cash flow needs of project.

❑ **Export Credit Guarantee Corporation India Limited (ECGC):**

ECGC has been extending cover for exports from India since its inception. Such covers have been instrumental in promoting exports from India. Such exports have been effected by exporters under the Suppliers credit extended to them as well as under the Lines of Credit and or/ buyers credit granted by Exim India from time to time. This has enabled the Indian exporters to expand their exports to new markets. ECGC has been operating various schemes under Medium & Long Term Business through various types of covers: specific shipment policy, specific services policy, specific contract policy and construction works policy. Apart from these Policies, ECGC also issues counter-guarantee to Indian Banks who issue guarantees to overseas entities on behalf of Project exporters. ECGC also covers the preshipment finance extended to exporters and sometimes issues Overseas Lending Guarantees to enable exporter to avail finance abroad.

ECGC has been operating various schemes under Medium & Long Terms Business through the following types of covers:

- (i) Specific Shipment Policies where only supplies of heavy machinery or equipment are involved and where payments start forthcoming after 2 or 3 years.
- (ii) Specific Services Policies for covering services exports on deferred payment basis.

- (iii) Specific Contract Policies for covering transaction from the date of contract i.e., inclusive of pre-shipment risks.
- (iv) Construction Work Policies are offered to cover turnkey projects from the pre-shipment stage to the end of the maintenance period.

Apart from these policies, ECGC also issues counter-guarantees to Indian Banks who issue guarantees to overseas entities on behalf of Project exporters. ECGC covers even the pre-shipment finance extended to exporters and sometimes issues Overseas Lending Guarantees to enable exporter to avail finance abroad.

ECGC's Premium & Policy:

ECGC Premium for Project exports are perceived to be high. These are around 1.7% and in case of deferred payments, these are quoted as high as 9%. It has been observed that while the Comprehensive Risk Insurance Policy provided by the foreign banks cover compensation for workmen, equipment, the comprehensive insurance/ guarantee provided by ECGC does not include such risks and facilities thereof. ECGC does not cover the loss even when the clients become defaulters .

An analysis of the premium earned by ECGC and claims paid so far to ECGC indicate the following trend:

- ECGC has paid gross claim of Rs. 1104 crores as against a premium of Rs. 271 crores under the covers extended for medium and long term exports (project exports, lines of credit and buyers credit extended by Exim India).
- While the share of premium earned under Project Exports is about 11% of the total premium income, the claims payment in respect of project exports constitute about 49% of the total claims. The bulk of the claims paid on account of covers related to Iraq alone constitute 35% of the total claims paid by ECGC so far.
- The claims in respect of project exports constitute a major part of the aggregate claims and the claims paid in respect of Iraq account will have a lion's share (which is approx/ Rs. 800 crores).

Hence, there is a need felt by Indian Project exporters to reduce the premium rates. Further for delays in payment, ECGC needs to strengthen their procedures to pay the amount immediately on lodgement of claim and ensure easy and short time settlement of claim.

Inherent problems faced by ECGC:

The inherent problems faced by ECGC are enumerated as under:

- ECGC has limited risk taking capability to support large value project exports, e.g. infrastructure projects overseas – BOT, BOO projects and projects in marginal risk countries.
- Two types of guarantees are required to be insured in the case of export credit. In addition to guarantees provided by ECGC to banks for export credit offered, counter guarantee of the foreign bank is also required to be insured. As a result, exporters are required to pay double premium against the two types of guarantees and this adds avoidable financial burden on the exporters.
- While the Comprehensive Risk Insurance Policy provided by the foreign banks cover compensation for workmen, equipment, the comprehensive insurance/ guarantee provided by ECGC does not include such risks and facilities thereof. Again, when the clients become defaulters, ECGC does not cover the loss.

The support provided by the different National Governments to the Export Credit Insurance Organisations like ECGC is summarised at **Appendix**.

Appendix

Type and nature of Support given by the different National Governments to the Export Credit Insurance Organisations like ECGC

Sr. No.	Circumstances and Support Extended	Agencies
1.	Political and catastrophic and manufacturing risks are covered on behalf of the Government.	CASC – ARGENTINA OEKB – AUSTRIA IFTRIC – ISRAEL ECICS – SINGAPORE
2.	All risks in the name and account of Government.	HERMES – GERMANY ECGD – U.K. EXIM BANK – USA HKEC – HONGKONG GIEK – NORWAY (cover issued in GIE name) EKN – SWEDEN ERG – SWITZERLAND ECS – CYPRUS EDC – CANADA CESCE – SPAIN FGB – FINLAND
3.	Covers given with full guarantees from the Government - with annual ceilings.	SACE – ITALY SIAC – ITALY SLECIC – SRILANKA (no annual ceiling)
4.	Treasury support to meet the deficit in the Revenue Account to meet claims payment.	KEIC – SOUTH KOREA
5.	Commercial risks in excess of 2 years with buyers in developing countries as well as large export transactions are reinsured with the Government. Political risks are fully reinsured with the Government.	NCM – NETHERLAND

Sr. No.	Circumstances and Support Extended	Agencies
6.	Reinsurance facilities and / or support under National interest consideration.	EXGO – NEWZEALAND EFIC – AUSTRALIA
7.	Political risks reinsurance facilities. (Risks beyond the mandate given by the Government).	CGIC – SOUTH AFRICA CREDIT SURE – ZIMBABWE
8.	Political risks claims compensated / indemnified by the Government.	TURK EXIM – TURKEY
9.	Transactions which involves risks of such a degree and duration that they exceed in technical possibilities of the agency but which the Government considers should be carried out, can be covered for the account of the state.	OND – BELGIUM
10.	Reinsurance for political risks and some commercial risks.	EKR – DENMARK
11.	All risks for transactions beyond 3 years credit are covered on behalf of the state.	COFACE – FRANCE
12.	When reinsurance capacity is in shortage Government acts as reinsurers.	Trade Indemnity, UK a private sector credit risk insurer had reported that in the year 1994 they had obtained reinsurance from UK Government for a small part of their business.
13.	100% cover on political risks.	FINNVERA – FINLAND

Project Exports

Sr. No.	Circumstances and Support Extended	Agencies
14.	Policies of non-marketable exposure allowed to cover for the account of State Budget.	MEHIB – HUNGARY
15.	100% cover for M/L Team transaction with Government L/G or sovereign loan.	NEXI – JAPAN
16.	UK Govt., full capitalization regime based on a Trading Fund - for very high risk markets. “Account3” business operated under ministerial directive & directly Underwritten by Treasury.	ECGD – UK
17.	Insurance cover with State support.	EGAP – CZECH REP.

Source: BU Handbook and study papers