GUIDELINES FOR PROJECT EXPORTS

Project Exports Promotion Council of India

(Set up by Government of India, Ministry of Commerce & Industry)

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P R E F A C E

It gives us immense pleasure to place before you the fourth edition of **Guidelines for Project Exports.**

In this improved version we have attempted to present all necessary information pertaining to policies and procedures as relevant to Project exports. We have freely drawn upon the resources of various institutions and trade bodies especially EXIM Bank, ECGC, RBI, and Department of Commerce to whom we shall ever remain grateful.

Needless to mention, we will continue to communicate further changes in policy or procedures as and when necessary and in this effort we would welcome any inputs/ suggestions to improve the value of this manual.

If this manual tends to serve the purpose for which it is created, we will feel rewarded in this effort.

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Chapter – 1

Preamble :

Genesis:

Government of India (Ministry of Commerce) had set up the **Overseas Construction Council of India (OCCI)** in 1984 as an export promotion council to promote and support the causes and concerns of the Indian Project exporters to enhance Project exports. As these overseas Projects progressively became more diversified and advanced in technologies, the OCCI was re-designated as **Project Exports Promotion Council of India (Project EPC)** in 2004. Subsequently the process of re-defining and harmonizing the role and functions of **Project EPC** was concluded by the Government in their circular no. 1/31/82-EP(OP) dated 9th January 2006 whereby **Project EPC** as an apex co-ordinating agency is designated to promote & facilitate Project exports : comprising of overseas Projects contracted in any of the following modules:

- **CIVIL CONSTRUCTION PROJECTS**
- **TURNKEY PROJECTS**

  including engineering, procurement and construction (from concept to commissioning) and essentially includes civil work/construction and all supplies specific to these turnkey Projects
- **PROCESS AND ENGINEERING CONSULTANCY SERVICES**

  and
- **PROJECT CONSTRUCTION ITEMS**
  (excluding steel and cement)
  - **Construction Engineering Products** ***(Fittings & Fixtures/Materials)***
  - **Construction Equipments & Accessories**
  - **Other Project Goods**

To sum up, **Project EPC** acts as an apex co-ordinating agency for the Indian Project exporters to secure and execute Projects overseas within the framework of the **Foreign Trade Policy** of Government of India and in line with the guidelines prescribed by the Reserve Bank of India for undertaking overseas Projects as detailed in their **Memorandum PEM** (Project Exports Manual).

Project is an engineering mission: essentially a scheme of work to be executed by employing the best technologies, continuous innovation and resources- human, financial and physical. In other words, as stated earlier, export of this engineering service in any of the aforesaid modules is termed as **Project exports** and the company providing this service becomes the **Project exporter**.

PROJECT EPC, since then has been actively engaged in the development and promotion of Project exports in almost all sectors of economic and industrial development world-wide as given below:

PROJECT SECTOR/SPACE	*SUB SECTORS*	*SPECIALISATION/TECHNOLOGY*
WATER	**Water supply**	
	Sanitation	
	Solid Waste Management	
	Irrigation and drainage	
	Flood protection	
	General	
ENERGY	**Power (HS Code 98010403)**	**Thermal**
		Hydel
		Others
	Renewable energy	
	Oil and gas	
	General	
SOCIAL INFRASTRUCTURE	**Urban Development & Housing**	
	Transportation	**Roads and highways**
		Ports, waterways and shipping
		Aviation
		Railways
		General
	Information Technology	
	Telecommunications	
	Health	
	Education	
INDUSTRY	**Industrial Plant Projects (HS Code 98010001)**	**Process :** **Hydrocarbons** **Fertilizers** **Chemicals** **Mining/Metals** **Others**
	Other Projects (HS Code 98010009)	

Vision:

Indian Project exporters are quite capable of executing any type and magnitude of Projects anywhere in the world. The extensive experience gained by them with the wide-ranging capabilities and emphasis of the self-reliance in building up the country's huge economic base have enabled them successfully undertake wide range of Projects. The Indian Project exporters have a special significance as they have not only established the technological advancement of the country but also have multiple effects in terms of opening of avenues for supply of plants & equipment, consultancy services and highly skilled-force. The Projects that Indian companies have secured and executed over the years do show the diversity of technologies and Indian expertise.

Over the last two decades, Indian Project exporters have not only successfully executed large and prestigious Projects world-wide, but also have acquired a pool of **knowledge, skills and experience** in their fields of technological excellence such as :

- Transport – roads, railways, ports and airports
- Utilities – energy (thermal and hydro), water supply/sewage and irrigation
- Housing : Commercial, retail or leisure
- Turnkey/Industrial Projects
- Consultancy

However, currently when there is a paradigm shift in the export promotion of services led by the knowledge-based industries, the need to have a fresh look at the Project exports sector becomes more urgent so as to enable us align ourselves in line with the emerging trends in the world markets.

In this backdrop and having regard to the global market place in which Indian market itself is a significant part, India ranks 12th but accounts for 1.75% of the $ 4 trillion global market as far as construction sector is concerned.

A major feature of global market is that bulk of new business opportunities are in the developing countries resulting in increasing global mix in the ownership and execution of Projects.

The pace of globalization will accelerate in the future and result in:

- Global sourcing of design of major Projects to minimize cost and shorten Project cycle time.
- Globally compatible information systems
- Procurement on a worldwide basis
- Increasing geographic spread of integrated Project teams will require state-of-the-art communications and new management to manage teams from diverse cultures and interests
- Project approach will increasingly incorporate off shore engineering standardization and automation
- Business relationships will become more complex with contracts increasingly based on value addition; greater risk sharing between owners, contractors and suppliers and emergence of specialized contractors
- Labour and workforce needs will alter as Projects will require more skills. Automation will alter the number and type of labour used. There will be greater dependence on local labour.

Competitive advantage will be determined by :

- Ability to use information technology in integrated Project information systems which enables decision-makers to assess the status and characteristics of each Project in real time.
- Degree of automation in construction and fabrication
- The ability to forge global alliances

In the construction equipment industry, following trends are of relevance to the construction sector:

- Emergence of new markets in oil exporting countries, following an increase in the price of crude oil and, greater allocation of funds for infrastructure developments in Egypt, Iran, Kazakhstan, Libya, Russia, Saudi Arabia and the Emirates. Elsewhere too, the scope for construction equipment and products and services exists in Australia, Brazil, China, Hongkong, Indonesia, India, Israel, Korea, Malaysia, Philippines, Singapore and South Africa, according to an assessment by the World Bank and OECD.
- Emergence of leasing and rental equipment industry in advanced countries, as a force to influence policies for the relaxation of trade barriers for used equipment for importation.

- Technological advancement in the design and manufacture of new generation equipment fitted with microprocessor driven control and machine monitoring, more GPS functionality, greater automation in paving equipment, speedier heavy cranes with wireless teleservices monitoring systems.

In the present context of liberalization and globalisation, new strategic initiatives have been taken to promote Project exports, since they carry the following essential advantages:

i. Project exports employ minimum domestic resources

ii. Support funding provided by the banking system is of self-liquidating nature over a period of time.

iii. Project exports provide employment opportunities to trained/skilled manpower as well as help in the absorption of state-of-the-art construction technology available in the world.

iv. Project exports tend to create opportunities for generating demand for other Indian construction and engineering products and thus giving a fillip to other ancillary industries also.

Chapter – 2

Services and Facilities

With a view to developing and enhancing Project exports, PROJECT EPC collates and disseminates all necessary information related to emerging Project opportunities world-wide (every month in a monthly bulletin designated as **Global Project Opportunities**) besides the following mega-marketing and export development initiatives:

- To undertake market research and analysis with a view to evolving medium to long-term strategy for enhancing Project exports
- To provide commercially useful information and assistance to members in developing and increasing Project exports
- To offer professional advice to members in areas such as technology upgradation, quality and design improvement, standards and specifications, product development, innovation etc
- To organize visits of delegations of members abroad to explore overseas market opportunities
- To organize participation in trade fairs, exhibitions and buyer-seller meets in India and abroad
- To promote interaction between the exporting community and the Government both at the Central and State levels
- To build-up a statistical data-base on exports as well other trade data desired by the industry.

Besides, PROJECT EPC co-ordinates the **promotion of economic co-operation** between Indian Project exporters and foreign companies :

a) by assisting in the formation of **consortia or joint ventures** to facilitate bidding for executing large Projects, and
b) by promoting technology transfer especially in sophisticated technology fields which would encourage Indian companies to jointly bid for mega Projects.

As a facilitator of Project exports – **essentially involving export of engineering service** - PROJECT EPC also co-ordinates with the Government to seek necessary rectifications in policies or procedures (in the regulatory framework**) which would tend to allure Indian Project exporters not only to undertake overseas Projects but would also lead to making their bids more competitive and successful**.

PROJECT EPC has **strategic alliance** with various trade bodies in India and abroad (as well as Indian missions abroad and foreign missions in India) and also looks forward to more such alliances with a view to enhancing Project exports.

To sum up, it is our mission to **contribute to the economic development world-wide** by helping Indian Project exporters, both in the private and public sector, to execute Projects overseas by employing the best technologies and **Project construction items** from India.

Chapter – 3

Export Procedures

Every potential Project exporter has to comply with certain procedural requirements in order to enable him initiate exports. In this direction following paragraphs would summarize the necessary steps needed to be followed :

3.1 Obtaining Import-Export Code (IEC):

Each exporter has to obtain the IEC Code Number from the regional licensing authorities under the office of the Directorate General of Foreign Trade (DGFT), Ministry of Commerce & Industry, Government of India.

3.2 Membership and Registration with PROJECT EPC :

After obtaining the necessary IEC Code Number from the office of the DGFT, the prospective Project exporter desirous of undertaking Projects and supplies overseas should submit an application to PROJECT EPC in the appropriate form for becoming a member .

PROJECT EPC membership is granted to the Indian construction or process engineering contracting and/or consulting companies / intending to export engineering services in any of the following modules:

- **CIVIL CONSTRUCTION PROJECTS**
- **TURNKEY PROJECTS**

  including engineering, procurement and construction (from concept to commissioning) and essentially includes civil work/construction and all supplies specific to these turnkey Projects
- **PROCESS AND ENGINEERING CONSULTANCY SERVICES**

  and
- **PROJECT CONSTRUCTION ITEMS**
  (excluding steel and cement)

  - **Construction Engineering Products** ***(Fittings & Fixtures/Materials)***
  - **Construction Equipments & Accessories**
  - **Other Project Goods**

Procedure for submission of applications:

(a) Applications for membership in the prescribed form have to be submitted to the Council. The Working Committee of the Council, then approves the membership request and has absolute discretion even to refuse to admit an applicant if not found suitable.

(b) The membership, commences from the date of approval of the aforesaid application and is valid for the financial year, in force, unless otherwise stated.

Annual Subscription:

The admission fee (one time only) and annual membership subscription payable for various categories of members are as under:

Project exports: construction engineering and turnkey projects

Turnover of Previous year	Membership Subscription payable (Rs.)	Admission Fee (for new Members) Rs.
Upto Rs. 25 Crores	50,000	Equivalent to one year's membership fee as applicable
Above Rs. 25 Crores	75,000	
Above Rs. 250 Crores	1,00,000	
Above Rs. 500 Crores	1,25,000	

Annual Web promotion charges: Rs. 5000/-

Project Exports: Process & Engineering Consultancy

Turnover of Previous year	Membership Subscription payable (Rs.)	Admission Fee (for new Members) (Rs.)
Upto Rs. 5 crore	20,000	Equivalent to one year's membership fee as applicable
Upto Rs. 10 crore	30,000	
Upto Rs. 25 Crores	50,000	
Above Rs. 25 Crores	75,000	
Above Rs. 250 Crores	1,00,000	
Above Rs. 500 Crores	1,25,000	

Annual Web promotion charges: Rs. 3000/-

3.3 Registration cum Membership Certificate (RCMC):

Once the application for obtaining the membership of the Council is approved by the Working Committee of the Council, the company may apply for online issuance of RCMC by the council. RCMC is required when export benefits as applicable under Foreign Trade Policy, are to be claimed.

3.4 Approval of Screening Committee (in respect of Project exporters):

Before a member Project exporter can undertake a Project overseas as a prime contractor or as a sub contractor, its case is to be examined and approved by **the Screening Committee** taking into account the **technical, managerial and financial capabilities** of the companies against expected standards. The screening committee, comprises of representatives from industry, various government ministries and related institutions like Export Credit Guarantee Corporation of India Ltd/EXIM Bank of India, besides Central Public Works Department. If the need arises, the screening committee may invite specialists for better appraisal of the capability profile of the companies before granting approval for enabling them undertake overseas Projects. Detailed Screening Committee procedures and guidelines are given in **Chapter - 4**

3.5 Insurance Cover:

It would be essential for the Project exporters to obtain appropriate credit insurance policy from ECGC, as it protects them against political and commercial risks that may arise in a contract, affecting the realization of payments in a contract.

a. Construction Works Policy:

Construction Works Policy provides cover to an Indian Contractor who executes a civil construction job abroad.

The salient features of the Construction Works Policy are given below:

- Construction Works Policy protects against specific risks
- It offers counter guarantee to banks to issue guarantees to exporters
- Construction Works Policy covers civil construction jobs as well as turnkey construction including supplies and services

(Details in Chapter-7).

b. **Specific Policy for Supply Contract**

Specific Policy for Supply Contract covers risks in respect of export of capital goods or turnkey Projects involving medium/long term credit.

(Details in Chapter-8).

c. Export Performance Guarantee:

Export Performance Guarantee is an insurance cover for banks which issue various kinds of guarantees on behalf of exporters in order to facilitate export transactions. The insurance is provided by ECGC with the objective of enabling exporters to obtain the required facility from banks on easy terms. The Guarantee, which is in the nature of a counter guarantee to the bank, is issued to protect the bank against losses that it may suffer on account of guarantees given by it on behalf of exporters.

Export Performance Guarantee (EPG) may be issued to a bank to cover any guarantee that it may issue in connection with an export transaction. *(Details in Chapter-9)*

3.6 Deployment of Personnel:

Clearance is required from Protector General of Emigrants, Ministry of Labour, Government of India for deployment of personnel abroad. The current address is as follows:

Protector General of Emigrants
Ministry of Labour, Govt. of India
Shram Shakti Bhawan,
New Delhi

3.7 Export Promotion Assistance given by Government:

a. At present, **Market Development Assistance (MDA),** subject to the stipulations laid down by the Government of India (Ministry of Commerce & Industry) is given to the exporters
(Marketing Development Assistance Scheme is given in Chapter-16)

b. Scheme for Export Promotion by Small Scale Manufacturers

In order to encourage SSI exporters a separate scheme designated as Marketing Development Assistance for SSI Exporters as currently applicable is detailed in Chapter-16.

c. Market Access Initiative (MAI) scheme

3.8 Useful Reference Literature/Guidelines:

1. Hand Book of Memorandum of Instructions on Project and Service Exports (Memorandum PEM) brought out by the Reserve Bank of India, Mumbai. (under revision by the RBI)
2. Marketing Development Assistance (MDA) and Market Access Initiative (MAI) Guidelines published by the Department of Commerce (E&MDA Division), Ministry of Commerce & Industry, Government of India, Udyog Bhawan, New Delhi 110 011.

3.9 For further guidance please contact the following:

Institution	Contact Person	Phone	Fax
EXIM Bank of India Centre One, Floor 21 World Trade Centre Cuffe Parade Mumbai-400005	Shri R.M.V. Raman Executive Director	022-22182285 022-22185272	022-22182572
Express Towers, 10th Floor Nariman Point Mumbai-400021	Ms. Tapasi De Dy. G.M. (Project Exports Cell)	022-22845452 022 26572329	022-22023267
Reserve Bank of India Exchange Control Department Central Office Building Mumbai 400 001	Smt. Vanitha K. Venugopal General Manager	022-22661644 022-22655095	022-22654121

Chapter – 4

SCREENING COMMITTEE- GUIDELINES (2004)

Objectives

The objective of screening by the Screening Committee is to assess the suitability of an Indian engineering contracting company from all points of view- technical, financial and managerial competence- before it is allowed to participate in tenders for overseas construction engineering contracts (civil/ electro-mechanical etc.).

Screening Committee approval is generally accorded selectively for activities for which applicant companies have established capability in one or more of the following construction engineering activities involving:

i. Dams, canals, irrigation works, tunnels and earthworks.
ii. Roads, bridges, flyovers, airports.
iii. Water and sewage treatment plants, pipelines.
iv. Buildings including commercial and factory complexes, hotels, schools and hospitals.
v. Special foundations and structural works, docks and sea water works/ports.
vi. Electrification, air-conditioning and utilities.
vii. Any other structure, infrastructure, utility or activity to be determined by the Screening Committee.
viii. General contractors with capabilities in combination of two or more areas in the above range of activities.

Scope

The coverage of Screening Committee includes all companies wishing to undertake overseas construction engineering Projects involving design, construction, erection and/or commissioning. Indian companies wishing to export Project construction items or consultancy services are outside the purview of the Screening Committee.

Types of Clearance

Clearance may be accorded to an applicant company for one or more of the following:

i. Prime Contractor or
ii. Sub Contractor to a Foreign Contracting Company or
iii. Sub Contractor to Indian Company

The clearance may be given either on a specific value basis or for regular overseas operations, depending on the track record within the country, financial position, management expertise and in-house capability.

Minimum Criteria:

Contractors are normally expected to fulfill following requirements before they can gain approval of the Screening Committee.

i) company should be a member of PROJECT EPC

ii) company should be a limited company - either private limited or public limited or a Government undertaking/department

iii) **company should have a minimum turnover of Rs. 10 crores (last three years) for getting approval by the screening committee.**

iv) company should have minimum tangible networth and operating experience as under:

Contractor description	Net worth (Rs.)	Minimum experience *
- as Prime-Contractor	1 crore	10years
- as Sub-Contractor to a foreign Prime-Contractor	25 lakhs	07 years
- as Sub-Contractor to an Indian Prime-contractor	10 lakhs	03 years

* An applicant company being considered as Prime-contractor should have a minimum experience of 10 years, in undertaking some comparable type of works in India. Similarly in case of Sub contractor to Foreign Prime-contractor the minimum experience should be 7 years. In the case of a Sub-contractor to an Indian Prime-Contractor, the experience in the line of activity in India should be a minimum of 3 years.

iv) In respect of newly formed firms/companies, joint-ventures or SPV's created with a view to undertaking and executing overseas Projects, the criteria for any one of the Indian or overseas constituents / partners would form the basis for granting approvals

Screening Procedure:

Applications by applicant company should be submitted to PROJECT EPC in 12 copies in the prescribed form, allowing for a 4 weeks time for decision so as to enable receipt of reports from company's bankers on the standing credit worthiness and dealings and also to enable suitable appraisal. PROJECT EPC will scrutinise and supplement data to the extent necessary to make the facts complete and ensure that the applications reach the Committee Members atleast 10 days before the scheduled date of the meeting.

Screening Committee accords clearance after taking into account the following factors:

i) Constitution of Board of Directors of a company including the qualifications, background and experience of directors;

ii) Track record of a company regarding Projects executed in India and overseas, as also the nature of works undertaken. Particular emphasis is placed on record of timely completion; and value of single largest contract executed;

iii) Exposure of a company's management and personnel in dealing with international organisations, and in executing works to international specifications. This is of particular relevance if the company seeks clearance as Sub-contractor to a foreign company (from a third country);

iv) Qualifications and experience of key-personnel currently in full - time employment of company.

v) Financial position of a company, including contingent liability and bank loans as a proportion to the net-worth; and paid up capital;

vi) Approach to international marketing and information systems. Ability of the company to furnish information required by institutions, from time to time.

vii) The plant and machinery owned by the company, the nature and size of which would commensurate with the volume of business proposed to be undertaken. Though these equipments may not be of use overseas, considering their unsuitability to the job proposed, this factor will give the Committee an idea of the applicant company's status in the business and his familiarity in handling equipment, a factor that is very important for the purpose of deciding his suitability for undertaking contracts overseas.

These are broad criteria for approval of companies. However, the Screening Committee in its discretion may approve a particular company to take up jobs abroad or renew the approval.

Validity of Clearance:

Clearance accorded by the Screening Committee is valid for a period of five years after which company must approach Screening Committee afresh.

Renewal applications shall have to be submitted in the prescribed format for clearance by the Screening Committee of the Council.

Review of Companies already screened

Review occurs in the following situations:

i) Those seeking change in status (e.g. from Sub-contractor to Prime-contractor or from one-shot to regular)

ii) Companies whose guarantees have been invoked, or where recurring disputes have arisen either with clients or with Sub-contractors, leading to litigation etc.

iii) Company whose management/ownership has undergone major change since the date of original approval.

For the above, PROJECT EPC works out a procedure for obtaining information from their members on a quarterly basis.

In case of adverse reports about a screened firm reported to the Screening Committee by any of its members, the Screening Committee will be entitled to take such action as it may deem fit including reduction in value limits approved or de-listing from the approved list.

Quorum of the Meeting:

Three members shall be the quorum of Meeting of the Screening Committee provided the three members shall include one member representing Government Department, one representing Financial Institution and one from industry.

Presence of Company's representative :

The committee may ask the applicant company to depute its representative at the meeting for clarifications or the company may depute its representative with the permission of the Committee.

Chapter-5
Export Requirements

A. General

To bid for an overseas contract, Indian Project exporters are required to identify an overseas market as well as suitable Projects within the limits of their competence: technical & financial.

B. Identification of an Overseas Market

1. To identify the thrust market following criteria must be kept in mind:

   (a) **Political stability of the country**-whether it permits continued operations for a reasonable length of time without detriment to financial and administrative needs of the exporters- whether the country has friendly relations with India.

   (b) Whether the country has easy **access by way of communications** by air, sea, telecommunications, roads etc.

   (c) Whether the country has organized system of rule of Law and dispensation of justice and fairplay.

   (d) Who yields real **power and influence**- politicians/ministers or Government officials?

   (e) Which are the media, both local and foreign, in which the PQ/tender notices are published.

   (f) Is the **role of Indian Mission** as a contact point for obtaining necessary documents, seeking clarifications etc. effective?

2. (a) **Economic outlook of the country**-at least for the duration of the proposed Project and preferably in the next decade- whether the foreign exchange resources, present or anticipated, would be adequate to cover the payments in foreign exchange due to the Project exporters-how far the facilities for conversion of the local currency into convertible currencies are smooth and effective.

   (b) Is the country free from excessive external debt – Is the **rate of inflation** high?

   (c) Particulars of **development plans of the country**- outlining the scope for foreign contractors sector-wise.

   (d) Do the local **banks** provide **loans to foreign contractors**, if necessary, and if so, the rate of interest applicable?

   (e) Whether **any local contractors** are **available** and if so, how much are they active? Is it possible, if necessary, to join with them on a mutually acceptable basis so as to improve the Indian exporters' image/effectiveness in that country.

   (f) Is there any **law stipulating that PQ applications/tenders should be submitted through a local partner**, which should be a member of consortium or a joint venture?

3. In the case of foreign contractors, does any nation(s) enjoy any favoured treatment?

4. **Extent of Indian involvement in the country's economy** in the spheres of trading, manufacture, technical collaboration etc.- if so, the experience of Indian companies already operating in the country.

5. What are the continuing **prospects of securing further contracts in the country** (apart from the one under consideration)? This has economic relevance to the operations of the exporter in as much as the equipment and other resources available on completion of the Project under reference may be made use of if more Projects come later.

6. Until the exporter's application for pre-qualification is accepted, what is the **sort of representation** that the Indian exporters should have in that country? Should it be in the form of posting a resident representative (of course, costly) or should it be through the medium of local agent or should it be through a representative of financial institutions present there?
7. What is the experience in the country regarding payment delays to contractors? Are they reasonably prompt and is there scope of remedial action in case of delays or non-payment?
8. What is the experience of the country in **the release of various bank guarantees** which might be given by the Indian exporters? Are these bonds returned promptly after the event takes place duly cancelled or are they continued to be kept by the authorities on some pretext or the other?
9. What is the **position regarding obtaining visas for expatriates** required for execution of the Project? Is there any regulation making it mandatory to employ a certain minimum number of locals?
10. Do the local regulations provide for (a) easy **repatriation of salaries of the expatriates** and (b) repatriation of the permissible percentage provided in the contract of the Project receipts?
11. What are the **formalities needed for winding up the establishment on completion of the Project**? Are these very stiff requiring continued presence of some people for a long period?

C. At Pre-Bid Stage Project exporters must go in detail about the following:

1. Who are the **likely competitors**?
2. Do the tender documents offer or give scope for offering any alternatives to the technical specifications prescribed? If not, what is the possibility of securing a response from the clients to any alternatives that the Project exporter may have?
3. If the **bid evaluation criteria** are not specifically laid down in the tender documents, how is it possible for the exporters to know them?
4. **Particulars of tax laws in the country**- Is there Double Taxation Avoidance Agreement with India?
5. (a) Particulars of **Labour Laws** applicable-minimum wages, social security benefits etc.

   (b) Do the local regulations impose any limit on **stay by expatriates**.
6. (a) Are **construction materials** (such as steel, cement, hardware etc.) locally available at competitive prices.

   (b) What about the local **availability of equipment and machinery**?

   (c) If not locally available, is it possible to speedily obtain an import permit for bringing the equipment, machinery and construction materials from outside free of customs duty.
7. Do the tender papers make provision for international arbitration, force majeure and what is the general experience in the country about fair implementation of these provisions.

D. After the bid is submitted, the Project exporter must keep himself aware of

1. the mechanism or source through which he can keep himself informed of the processing of the bids by the clients.
2. the activities of the competitors.
3. the chances of securing the contract by either lowering of the bid value or by altering some of the conditions and the possible way to get advance information on these points from the clients.

Chapter-6

Role of Trade & Financial Institutions in Export Promotion

6.0 Financial and other institutions of our country, like the Reserve Bank of India, Exim Bank of India, Export Credit and Guarantee Corporation of India Ltd etc. play a major role in export in dealing with the case of Project/service exports. Some of the important aspects of the functions by these institutions in this direction are explained in the following paragraphs:

6.1 Working Group Mechanism :

Exporters desirous of undertaking turnkey/civil construction contracts abroad require approval/assistance of different institutions like Reserve Bank of India, Exim Bank of India and Export Credit Guarantee Corporation of India Ltd. besides their own bankers before making any proposal or offering any quotation to overseas clients. With a view to obviating the need for exporters to approach each institution separately for such approvals and to avoid delays, a Working Group has been constituted with representation of Reserve Bank of India, Exim Bank and ECGC, for the purpose of giving package approvals for proposals submitted by exporters to bid for such overseas contracts. In case of contracts of high value, representatives of Government of India are also invited to participate in the meetings of the Working Group. In order to obtain immediate clarifications for speedy clearance of proposals by the Working Group, the concerned bidders and their bankers are also associated with the meetings. With the same objective, participation of the main sub-suppliers, sub-contractors or other associates and their bankers in such meetings is also encouraged, particularly in respect of proposals for high value contracts.

6.2 Consideration of Proposals:

6.2.1 The Working Group examines, among others, the following aspects while considering grant of package approval for proposals for export of engineering goods on deferred payment terms or for undertaking turnkey/construction contracts abroad:

(a) Geographical, climate, political and economic conditions of the importer's country where the Project is to be executed and the clients creditworthiness and financial position.

(b) Experience, competence and capability of the applicant and his main sub-contractors in execution of large value contracts.

(c) Immediate and long-term foreign exchange benefits (i.e. profits, export of goods/materials, etc.) expected to accrue from the contract.

(d) Period of deferred credit offered vis-à-vis foreign competition, moratorium, rate of interest, adequacy of advance and down payment provided for as well as requirement of foreign exchange for execution of contract (viz. Imports from third countries, agency commission, freight etc.) and overall economics of the proposal.

(e) Nature of security obtainable from the foreign clients against payments due and nature and extent of various bonds/guarantees required to be offered by the exporter (including those for procuring third country supplies).

(f) Nature of escalation, force majeure and arbitration clauses provided in the contract and penalty/damages payment provisions.

(g) Extent of fund-based and non-fund-based facilities required in India including pre-shipment and post-shipment credit and/or bridge finance requirement.

(h) In case of turnkey contracts, economic and technical viability thereof as well as special features relating to erection, supervision and commissioning of the contract.

6.2. 2. As regards civil construction contracts, the Working Group will consider proposals only from contractors who are on the approved list of Ministry of Commerce & Industry, Government of India in order to ensure that only contractors having the necessary competence and capability undertake overseas construction contracts. Intending tenderers who are not on the approved list should, therefore, first approach the Screening Committee set up by the Ministry Commerce & Industry for getting their names included in it. While considering proposals, the Working Group will endeavour to promote, wherever possible, the idea of high value construction contracts being undertaken on a consortium basis. Apart from examination of special features relevant to the proposal under consideration and the factors enumerated earlier, the Working Group will also take into account the following aspects while considering grant of package approval for construction contracts abroad:

(a) The companies should have good track record in the execution of Projects in India as well as abroad.

(b) They should have proven record of satisfactory repatriation of their dues to India in their previous Projects.

(c) They should also have a satisfactory record of adherence to time and cost schedule.

(c) Good profitability on earlier Projects of at least between 10% and 15%.

(d) Companies should endeavour to source maximum content from India for materials, plant, machinery and equipment.

(e) At least 30% of contract value inclusive of bank commission and ECGC charges should be repatriated to India, including ordinarily 15% of non-wage component.

(f) Availability of infrastructure facilities in the importer country like transport, water, construction material, skilled/unskilled labour, etc. and nature of laws governing civil matters, labour usages etc.

(g) Estimated monthly/quarterly cash flows for the entire duration of the contract and arrangements between prime contractor and associate/sub-contractors for timely execution of the contract in case of consortium arrangement.

(h) Whether the contract would need any bridge finance facility abroad to meet temporary cash flow deficits in working capital, if so, the manner of raising the bridge finance and its full repayment with interest.

6.2.3 In regard to service contracts, the Working Group will, inter alia, take into account relevant factors like size of the contract, nature of services to be rendered, overall economic condition of the importer country, extent of international competition and potential and prospects for further export of services, goods or turnkey Projects from India.

6.2. 4 The Working Group may suitably relax the above criteria at its discretion, where warranted by merits of the proposal. While considering proposals, the Working Group may also make such suggestions or tender such advice as may be necessary to avoid inter se competition and to promote, as far as possible, exports in such a way that the foreign exchange benefit for the country is maximised.

6.3 Procedure for Clearance of Proposals

(i) All applications to the Working Group are required to be submitted by the exporters through their bankers (who must be authorised dealers in foreign exchange) in the prescribed form in the required number of copies sufficiently in advance to enable the Working Group to hold a meeting of its members for consideration of the proposal. When a proposal is approved by the Working Group, a package clearance is granted by Exim Bank, on behalf of all the members of the Working Group and conveyed to the exporters' bankers through whom the proposal was received. The Working Group's clearance will ordinarily be given within a period of seven days from the date of receipt of the application, provided it is complete in all respects.

(ii) Exporters desiring to submit bids for execution of Projects abroad including service contracts will not be required to obtain clearance for submission of bids from the authorised dealer /Exim Bank/ Working Group. However, exporters in such cases are required to ensure that the conditions as laid down in the Memo PEM are complied with.

(iii) On the basis of experience gained over the years and in order to enable the exporters to expeditiously obtain clearance for contracts for supply of engineering goods on deferred payment terms, turnkey contracts and civil construction contracts, powers have been delegated to authorised dealers and Exim Bank to grant post-award clearances in cases where the contract value does not exceed U.S. Dollar 100 Million. Proposals for undertaking such export contracts up to the value of U.S. Dollar 100 Million will, therefore, be cleared by authorised dealers / Exim Bank . Proposals for undertaking such contracts exceeding U.S. Dollar 100 Million in value will need to be cleared by the Working Group.

(iv) In the case of contracts for export of services on cash payment terms requiring fund-based and/or non-fund based facilities, as also those involving deferred payment terms, authorised dealers and Exim Bank have been empowered to grant clearance upto the value of U.S. Dollar 100 Million. Proposals for undertaking such export contracts will, therefore, be cleared by authorised dealers/Exim Bank upto the value of U.S. Dollar 100 Million. Proposals for undertaking such contracts exceeding U.S. Dollar 100 Million in value will need to be cleared by the Working Group.

(v) Proposals for deferred payment export or turnkey Projects against Buyers' Credits as well as for export of managerial / technical consultancy services on deferred payment terms as also those on cash payment terms involving grant of any fund-based and/or non-fund based facilities in excess of the monetary limits mentioned in sub-paragraph (iv) above will need the prior approval of the Working Group.

6.4 General Permissions by Reserve Bank of India

The general permission is subject to certain terms and conditions which are conveyed to the Project exporters at the time of issuing the post award clearance. A few crucial conditions are:

1. Buyer's Credit Scheme of Exim Bank

Authorisation granted to Exim Bank to extend Buyer's credit under its Buyer's Credit Scheme has been revised from Rs.50 crore to USD 20 million.

2. Periods of Deferred Credit

Period for which deferred credit may be offered by the exporter was linked to the value and type of the contract. The period of deferred credit can now be determined by the exporter and his banker in mutual consultation on merits of each case and on the basis of their commercial judgement. However, consumer durables and miscellaneous engineering goods (Part B of the list in Annexure I) should ordinarily continue to be exported on "cash" terms.

3. Conditions necessary for clearance of proposals by authorised dealers / Exim Bank.

At present, proposals which deviate from the stipulated conditions regarding advance / down payment, type of security for the contract etc. are referred to Exim Bank by authorised dealers and where necessary, by Exim Bank to the Working Group. Authorised dealers / Exim Bank may now relax these conditions based on their commercial judgement.

Proposals involving Bridge Finance in excess of 25 per cent of contract value can also be considered by the approving authority (viz. authorised dealer/Exim Bank/Working Group). Exporters were earlier required to approach Reserve Bank for approval in such cases.

4. Export of Consumables

Powers to grant permission to Project exporters to export consumables and raise invoices on their own site offices have been delegated to authorised dealers subject to certain conditions. Hitherto, exporters were required to approach Reserve Bank for such permission.

5. Liaison Office

At present, number of liaison offices which can be opened by the exporter is restricted to one in a country where more than one Project export contract is executed. This restriction has been removed. Exporters can now be permitted by the approving authority viz. authorised dealer/Exim Bank/Working Group to open more than one liaison office in one country, if required.

6. Initial Remittance

Remittance for meeting initial / mobilisation expenses from India in the absence of adequate advance payment or an overdraft / loan arrangement abroad by the exporter required approval of Reserve Bank where the amount of remittance exceeded 5 per cent of contract value and / or period of repatriation of such amount to India exceeded one year from the date of such remittance.

Approving authority viz. authorised dealer/Exim Bank/Working Group can now allow such remittance even if it exceeds 5 per cent of the contract value on the basis of cash flow position of the Project / service export proposal. The period of repatriation can also be determined by the approving authority. Concerned exporter will however, be required to submit an undertaking to the authorised dealer to repatriate the amount within the period determined by the approving authority. Fulfilment of the undertaking by the exporter will need to be monitored by the authorised dealer who allows remittance and he is also required to monitor the Project.

7. Third Country Purchases

Authorised dealers could open letters of credit in India in favour of third country suppliers provided they were on back-to-back basis. Availability of letters of credit opened by foreign client in favour of the Indian exporters with similar terms and conditions need not be insisted upon. However, the amount of such letter of credit should not exceed the value of third country imports approved by the approving authority while according post award clearance to the Project export proposal and payment under such letters of credit should be made from out of the Project receipts.

Authorised dealers can now grant waiver for submission of the exchange control copy of the bill of entry subject to certain conditions where third country purchases are directly transported by the overseas supplier to the Project site and for which payment is made under letter of credit opened in India. Exporters were earlier required to approach Reserve Bank for grant of such waiver.

8. Export of Equipment on Re-import Basis

Export of equipment on re-import basis was being allowed by Reserve Bank and necessary GR approval was being accorded. Exporter was required to submit an undertaking that he will re-import the equipment or if sold abroad, repatriate the sale proceeds. The exporter will now be required to make an application to the authorised dealer for permission, citing a reference to the post award approval granted by the approving authority. He will submit the undertaking to the authorised dealer. Requisite GR/SDF Form approval may be granted by authorised dealer. Fulfilment of the undertaking by the exporter will need to be monitored by the authorised dealer.

9. Intimation Regarding Approval of the Contract

Copies of approval letters in respect of Project and Service Export contracts cleared by authorised dealers were required to be forwarded by the concerned authorised dealer to the concerned Regional Office of Reserve Bank and all the members of the Working Group.

Copies of such approvals may henceforth be sent to the Regional Office of Reserve Bank and in addition, to Exim Bank and ECGC only if their participatory interest by way of funded / non-funded facilities, insurance / risk cover, etc. is involved.

10. Progress Report on Execution of Contract.

Progress of the execution of the contract in Form DPX 5 (now renumbered as DPX 3) was being submitted on a half-yearly basis by the exporter to all the institutions constituting the Working Group and the concerned Regional Office of Reserve Bank through the exporter's bank. Such report may now be sent to the authority approving the Project export contract and the concerned Regional Office of Reserve Bank. It will however, be necessary to forward the report to Exim Bank / ECGC also in all cases where their financial / non-financial assistance / risk cover has been obtained. In the case of Project export proposals approved by the Working Group, the report in Form DPX 3 may be sent to Exim Bank, ECGC and the concerned Regional Office of Reserve Bank. The final DPX 3 report may clearly indicate the fact of completion of the Project and full compliance with closing procedures laid down in para B.10 of the revised Memorandum.

11. Inter-Project Transfer of Funds

Presently, copies of applications for inter-Project transfer of funds together with the approval accorded by authorised dealers are required to be forwarded to all the members of the Working Group, the banker of the lending Project and the concerned Regional Office of Reserve Bank. Such copies together with the approval may now be forwarded to the concerned approving authority (which has approved the Project export proposal) and the banker of the lending Project. Copies may also be forwarded to Exim Bank / ECGC in all cases where their participation in the Project finance / facilities, risks, etc. is involved. In the case of Project export proposals approved by the Working Group, copies of the application, etc. may be forwarded to Exim Bank and ECGC.

12. Sale of Equipment Exported on Re-import Basis, etc.

Equipment taken out of the country on reimport basis is required to be reimported to the country. However, if the equipment is sold abroad / given on hire basis, documentary evidence showing repatriation of entire sale proceeds or hire charges of equipment given on hire basis to other contractors abroad is required to be submitted to Reserve Bank. Such evidence will now be submitted to the authorised dealer who is monitoring the Project.

13. Completion of Projects

On completion of the Project, the exporter is required to submit a report giving full account of the various steps taken by him to Reserve Bank and all the members of the Working Group. Such report will now be sent within one month from the completion of the Project, by the exporter through his banker to the approving authority which had cleared the Project export contract at the post award stage and in addition, to ECGC / Exim Bank if they have participatory interest in the facilities / risks. Where the Project export proposal was cleared by the Working Group, the report may be sent to Exim Bank and ECGC.

14. Single Foreign Currency Account -Monitoring

Exporter can maintain a single foreign currency account for more than one Project being executed in the same country. He is however, required to submit Project-wise statements of accounts to the Project monitoring authority including concerned Regional Office of Reserve Bank. Such statements may now be sent only to the authorised dealer monitoring the Project.

15. Foreign Currency Account - Opening of

As regards the foreign currency account/s opened abroad, the exporter may submit the following information/statement to the concerned authorised dealer which was hitherto being submitted to the regional office of Reserve Bank. The periodicity of the statement at item (ii) below has been made on half-yearly basis.

i. Intimate the account number, name of the bank, place and country where such account is opened within 15 days from the date of opening of such account.

ii. Statement of operations on the account should be on half yearly basis.

iii. Bank certificates evidencing the amount repatriated, periodically.

iv. Closure of foreign currency account with bank certificates evidencing transfer of balance to India immediately on completion of the relevant contract.

16. Foreign Currency Account in India

Approving authority of the overseas contract i.e. Authorised Dealer/Exim Bank/Working Group can now allow Project/service exporters to open, hold and maintain foreign currency account in India subject to certain terms and conditions. Hitherto, Project/service exporters were required to approach Reserve Bank for permission to open such account in India.

17. Details of Site / Liaison Office, Payment of Agency Commission on Overseas Borrowings.

The exporter may submit the following information/statements to the concerned authorised dealer which was hitherto being submitted to the regional office of Reserve Bank.

i. Details regarding opening of liaison office/site office (expenses on these offices, closure of offices) etc. within 15 days from the date of opening of such office.

ii. Expenditure of site/liaison office within one month from the expiry of the relevant half year.

iii. The account number, name of the bank, etc. of over draft / loan account of the exporter within 15 days from the date of grant of financial accommodation.

iv. Statement of operations on the overdraft/loan account should be on half-yearly basis.

v. Submission of details regarding agency payment has been dispensed with.

6.5 Exchange Control Regulations by Reserve Bank of India:

Construction engineering Projects are generally of high value and the exporters of such Projects are required to offer competitive credit terms to be able to secure contracts abroad in the face of stiff international competition. The Indian contractors are required to take specific prior approval from the Reserve Bank of India for credit terms to be offered, third country imports, opening of liaison office etc. Regulations relating to 'Project Exports' and 'Service Exports' are contained in the 'Memorandum of Instructions on Project and Service Exports' issued by the Reserve Bank of India as per Section 73(3) of the Foreign Exchange Regulation Act, 1973 (46 of 1973). Any contravention or non-observance there-of is subject to the penalties prescribed under the Act.

6.6 Requirements Relating to Construction Engineering Projects:

(i) Exporters executing turnkey/construction contracts abroad should take the following steps after completion of the contracts:

(a) Close the foreign currency accounts and transfer the balances to India

(b) Wind up site and liaison offices opened abroad

(c) Ensure that the guarantees for performance of the contract and other guarantees issued are cancelled and returned to exporters.

(d) Liquidate fully overseas borrowings/overdrafts obtained, if any, and cancel counter-guarantees

(e) Make suitable provision for payment of taxes, customs and other statutory obligations in the country of Project

(f) Dispose of the equipment, machinery, vehicles, etc. purchased abroad and/or to arrange their import into India. (In case the machinery etc. is to be used for another overseas Project, the market value (not less than book value) should be recovered from the Project to which equipment/machinery has been transferred)

(g) Recover funds, if any, transferred to other overseas Project/s and repatriate them to India.

(ii) A report giving full account of the various steps taken should be sent by the exporter to Reserve Bank of India and also to other members of the Working Group. The following documents should also be forwarded along with such report:

a) A completion or final handing over certificate

b) A certificate from the overseas bank regarding closure of the account held with it.

c) A statement of remittances made to India. Bank certificates about repatriation of funds to India should be enclosed.

d) Tax clearance certificate/No tax liability certificate about the overseas Projects

e) Bills of Entry for re-import of machinery, etc.

f) Statements of income and expenditure and profit and loss account of the Project duly certified by a Chartered Accountant/Project Manager.

6.7 Recruitment and Deployment of Personnel Abroad

Regulations relating to recruitment and deployment of personnel abroad by Project exporters for execution of an overseas Projects are governed by Emigration Act, 1983 and Rules framed thereof. The office of Protector General of Emigrants, Ministry of Labour is the executing Authority of the Emigration Act. A Project exporter who holds clearance of the Screening Committee and approval of the RBI for a specific Project abroad can approach the Protector General of Emigrants for grant of clearance for deployment of personnel abroad. The application to the Protector General of Emigrants needs to be submitted in the form prescribed in the Emigration Act.

6.8 Export Credit Insurance

Payments for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far-reaching political and economic changes that are sweeping the world. The commercial risks of the foreign buyer going bankrupt or losing his capacity to pay are heightened due to the political and economic uncertainties.

The loss of a large payment may spell disaster for any exporter, whatever his prudence and competence. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

In order to provide export credit insurance support to Indian exporters, the Government of India set up the '**Export Credit Guarantee Corporation of India Limited (ECGC**).

6.8.1 What does ECGC do?

- provides a range of credit risk insurance covers to exporters against loss in export of goods and services,

- offers guarantees to banks and financial institutions to enable exporters obtain better facilities from them,
- provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan.

6.8.2 ECGC provides

- offers insurance protection to exporters against payment risks
- provides guidance in export-related activities
- makes available information on different countries with its own credit ratings
- makes it easy to obtain export finance from banks/financial institutions
- assists exporters in recovering bad debts
- information on credit-worthiness of overseas buyers

6.8.3 The covers issued by ECGC can be divided broadly into four groups:

1. **Standard Policy**

Shipments (Comprehensive Risks) Policy, which is commonly known as the Standard Policy, is the one ideally suited to cover risks in respect of goods exported on short term credit; i.e. credit not exceeding 180 days. The policy covers both commercial and political risks from the date of shipment.

2. Other Specific Policies

Specific Policies are designed to protect Indian firms against payment risks involved in a) exports on deferred terms of payment b) services rendered to foreign parties and c) construction works and turnkey Projects undertaken abroad. These policies are issued separately for each specific contract, and cover risks normally from the date of contract.

ECGC provides for an insurance cover named as **Construction Works Policy** to provide cover to an Indian contractor who executes a civil construction job abroad.

Construction Work Policy is explained in detail in Chapter-7.

3. Financial Guarantees

Financial Guarantees are issued to banks in India to protect them from risks of loss involved in their extending financial support at pre-shipment and post-shipment stages. These also cover a host of non-fund based facilities that are extended to exporters.

Export Performance Guarantee

Export Performance Guarantee *(explained in detail in Chapter-9)* is an insurance cover for banks, which issues various kinds of guarantees on behalf of exporters in order to facilitate export transactions

4. Special Schemes

Transfer Guarantee meant to protect banks which add confirmation to Letters of Credit opened by foreign banks, Insurance cover for Buyers Credit and Lines of Credit, and Exchange Fluctuation Risk Insurance.

ECGC Whole Turnover Post-shipment Guarantee Scheme

The Whole Turnover Post-shipment Guarantee Scheme of the Export Credit Guarantee Corporation Ltd. (ECGC) provides protection to banks against non-payment of post-shipment credit by exporters. Banks may, in the interest of export promotion, consider opting for the Whole Turnover Post-shipment Policy. The salient features of the scheme may be obtained from ECGC.

As the post-shipment guarantee is mainly intended to benefit the banks, the cost of premium in respect of the Whole Turnover Post-shipment Guarantee taken out by banks may be absorbed by the banks and **not** passed on to the exporters.

Where the risks are covered by the ECGC, banks should not slacken their efforts towards realisation of their dues against long outstanding export bills.

Overseas Investment Insurance

ECGC has evolved a scheme to provide protection for Indian investments abroad. Any investments made by way of equity capital or untied loan for the purpose of setting up or expansion of overseas Projects will be eligible for cover under investment insurance.

The investments may be either in cash or in the form of export of Indian capital goods and services. The cover will be available for the original investment together with annual dividends or interest receivable.

The risks of war, expropriation and restriction on remittances are covered under the schemes. As the investor would be having a hand in the management of the joint venture, no cover for commercial risks would be provided under the scheme. For investment in any country to qualify for investment insurance, there should preferably be a bilateral agreement protecting investment of one country in the other. ECGC may consider providing cover in the absence of any such agreement provided it is satisfied that the general laws of the country afford adequate protection to the investments.

The period of insurance cover would not normally exceed 15 years. In case of Projects involving long construction periods, cover may be extended for a period of 15 years from the date of completion of the Project subject to a maximum of 20 years from the date of commencement of the investment. Amounts insured shall be reduced progressively in the last five years of the insurance period.

ECGC's SCHEMES FOR PROJECT EXPORTS

Export of capital goods on deferred payment terms and execution of turnkey Projects, construction works contracts as also rendering of services abroad are collectively referred to as Project exports. As these transaction are not of repetitive nature and they involve medium / long terms credit, ECGC's insurance cover for such transactions are provided on a case to case basis under Specific Policies. Normally these contracts are of very high value and involve longer credit period. The country / political risks involved in such transactions are unpredictable in view of long credit period involved. Although in' most cases the overseas buyers are the government or semi government organisations, there is a need for ECGC cover to safeguard the payment risks. In many cases these contracts are funded by International Financial Institutions and payments are secured under UC or bank guarantee. There are cases where even government or central bank guarantees are available safeguarding payments. However, the elements of political risk such as war, civil disturbances, exchange transfer delay etc. are existent in all these cases despite having payment security as stated above. In order to protect such exporters ECGC has the following types of covers.

1. For covering supply contracts and Turnkey Projects Specific Contract / Shipments Policy can be taken. This Policy can be for covering only political risks or for covering comprehensive risks i.e. both commercial and political risks.

2. For covering construction contract, a Construction Works policy can be obtained. This policy can be for either Political Risks alone or for Comprehensive Risks. The Comprehensive Risks Policy provides protection against commercial risks such as Insolvency of Buyer, protracted default, non-acceptance of goods shipped in addition to covering political risk of war, civil war, exchange transfer delay etc. The political risk policy on the other hand provides protection against political risk policy.

3. For covering services contract, which involves only technical and / or professional services, a Services Policy can be obtained. This also can be either for political or comprehensive risks.

In addition to the policy covers, which are issued to exporters, ECGC also extends its guarantee support to banks in India against both funded and nonfunded facilities extended to Project Exporters. The types of guarantees issued by Indian bank are:

1] Funded:
- [a] Packing Credit
- [b] Post Shipment
- [c] Overdraft
- [d] Rupee Loan

2] Non - Funded
- [a] Bid Bond
- [b] Advance payment
- [c] Performance guarantee
- [d] Retention Money guarantee
- [e] Overseas Lending Finance guarantee

ECGC's counter guarantee can be obtained by banks in India to protect them against any loss that they may sustain owing to invocation of the above guarantees.

Risk Covered	:	insolvency of the exporter/ protracted default of the exporter
Percentage of Loss	:	75% TO 90% Covered
Rate of Premium	:	0.80 Paise per Rs.100/- p.a. & 0.95 paise per Rs.100% p. a.

As per RBI's recent directive, no pre-bid approval from authorised dealer, Exim Bank or Working Group is required to be taken by Project exporters. Only post-award approval is required to be taken. However, it would be in the interest of Project exporters to obtain 'In - Principle' clearance from their bankers and ECGC assuring them of support in the event of their securing the contracts.

ECGC's approval of Project exports and services contracts is based on the following aspects :-

(i) The capacity of the Project exporter to carry out large value contracts - technical, professional and managerial, and their past experience in the line of business.

(ii) Country to which the exports are to be made - stability of political set-up / government, soundness of economy, payment records, relations with IMF, World Bank & other International Financial Institutions & Donor countries.

(iii) Overseas contract / Project - value, type of Project, whether cleared by local authorities, profitability.

(iv) Buyer / employer - private / government.

(v) Payment terms & security, rate of interest for deferred receivables.

(vi) ECGC's underwriting policy on the country and its experience, whether any transfer delay experienced.

(vii) Berne union experience - whether the credit period offered is in line with Berne union understanding.

(viii) Reinsurance back-up available or not.

(ix) Whether need for covering the contract under National Export Insurance Account set-up by Government of India.

Buyer's Credit / Line of Credit cover:

Financial institution in India extend Buyer's Credit / Lines of Credit to overseas buyers / institutions to facilitate export of goods & services from India. Institutions like Exim Bank, SIDBI etc. often seek ECGC for Buyers Credit / Line of Credit cover. Buyers Credit / Line of Credit cover can be obtained either for covering political risks or for comprehensive risks.

Factors weighing approval of Buyers Credit proposals are:
a) Competence and capacity of exporter in executing the contract.
b) Commercial justification of the contract.
c) Economic viability of the overseas Project for which credit is required to be offered.
d) Credit worthiness, standing and financial position of foreign buyers and general economic conditions of the Buyers country.

Lines of Credit are generally extended by Exim Bank of India to Financial Institutions/Governments in Overseas Countries facilitating export of consumer goods and capital goods.

Overseas Investment Insurance (OII) cover:

Oil provides cover for the investments made by Indian corporates abroad in Joint Venture or their wholly owned subsidiary (WOS) either in the form of equity or loan. Government of India or RBI should approve the Joint Venture. The basic principle is that the investment should emanate from India and benefit of dividend / interest therefrom should accrue to India. The investment should not in any way conflict with the policy of both our government and the overseas government. Normally, there should be a bilateral agreement between India and the host country for promotion and protection of Indian Investment. In case there is no such agreement the Corporation should be satisfied that the existing laws of the host country adequately safeguard Indian Investment.

Types of Investment:
The overseas investment may be made either by way of equity or by way of loans

Equity
Any contribution made to the enterprise in return for shares either by cash remittances or by way of export of capital goods or services can be covered. Any fees payable towards technical know-how, consultancy or management services etc. and agreed to be converted into capital will be considered for cover at the discretion of the Corporation.

Loans:
Loans advanced by way of a formal agreement but not tied to export of goods and supplies are eligible for cover. Any 'suppliers / buyers' credits and lines of credit extended to support sale of goods or services from

India may be covered under the appropriate insurance schemes of the Corporation and not under investment insurance.

Dividend and profit

In case of equity the investor can choose to cover the original investment as well as his share of retained earnings and dividends declared, to the extent they are eligible for repatriation. Cover on account of original investment, retained earnings, dividend receivable and any additional investment will be subject a ceiling of 150% of the original investment calculated as in the proceeding paragraphs. In case of loan, the insurance will cover the principal as well as interest actually earned.

Portfolio Investment:

Any investment in shares of overseas concerns not related to setting up, development and expansion of overseas Projects will not be eligible for cover under the investment insurance.

Additional Investment:

Additional investment can be covered subject to a ceiling of 50% of the original investment. Any additional investment out of retained earnings should have been made by formal capitalization and for the purpose of expansion for development of the enterprise. If the additional investment is made out of retained profits, which are not eligible for repatriation such as investment will not be eligible for cover. Initially cover is issued for 3 years. On expiry of the 3 years it is at the option of the exporter to renew the cover / review of the JV / WOS by ECGC. The duration of insurance cover shall not normally exceed 15 year but extension can be given upto 20 years for longer Projects. The amount of investment eligible for cover shall be to the full extent during the first 10 years of cover. Percentage of cover is 90 - can be reduced. The amount of investment eligible for cover will be reduced to 90%, 80%, 70%, 60% and 50% respectively of the original investment during the 111", 121", 13th, 14th and 15th years of insurance. OII provides cover for original investment retained earning, dividend receivables and additional investment upto 50% of the original investment. Cover for dividend receivables may not be given in case of risky countries; cover only for original investment. OII covers only political risks of war, expropriation and restrictions on remittances.

Premium Rate

Base rate 2.5% of the investment value. Actual premium rate will be depend on size of Investment, country of the investment, previous experience of the Importer etc.

The exporter has to furnish proposal form alongwith fee of Rs.01 % of the investment amount subject to ceiling of Rs.25,000/- if cover is agreed application fee paid shall be adjusted towards premium payable. In case, the application for insurance is rejected, half the fee paid shall be refunded. Premium is taken up front. Income from the premium is allocated over the tenor of the cover extended. Installment facility is provided by ECGC for collecting premium after analyzing and approving the proposal.

ECGC enters into agreement with the exporters for providing cover mentioning the terms and conditions alongwith the maximum liability. The exporters have to submit annual report about the progress and working of the Project.

NEW INITIATIVES

ECGC has since revised its premium structure providing substantial reduction in the rates both for short term as well as for medium and long term contracts. This will go a long way in providing cost effective credit insurance support to Project exporters which in turn will enable them to compete effectively for international tenders.

In order to increase Project exports and to encourage Project exporters Govt. of India have initiated various steps. Institutions like ECGC and Exim Bank are being strengthened to provide adequate support to Project exporters. The National Export Insurance Account (NEIA) has been set up by the Government of India to provide credit insurance support to exporters where ECGC is not in a position to do so due to its own underwriting constraints and where the export is strategically important in the long term interests of the country.

Chapter-7

Construction Works Policy

Construction Works Policy is designed to provide cover to an Indian contractor who executes a civil construction job abroad.

Two types of policies have been evolved to cover contracts with

(i) Government buyers and (ii) Private buyers. The former covers political risks in respect of contracts with Overseas Governments or where Government and the latter comprehensive risks guarantee the payments. In case of contracts with private employers, the policy may be issued to cover only political risks if the payments are guaranteed by a bank or covered by L/C.

The distinguishing features of a Construction Contract are that (a) the contractor keeps raising bills periodically throughout the Contract period for the value of work done between one billing period and another ; (b) to be eligible for payment, the bills have to be certified by a consultant or supervisor engaged by the Employer for the purpose and (c) that, unlike bills of exchange raised by suppliers of goods, the bill raised by the contractor do not represent conclusive evidence of debt but are subject to payment in terms of the Contract which may provide, among other things, for penalties or adjustments on various counts. The scope for disputes is very large. Besides, the Contract value itself may only be an estimate of the work to be done, since the Contract may provide for cost escalation, variation contracts, additional contracts, etc. It is, therefore, important that the Contractor ensures that the Contract is well drafted to provide clarity of the obligations of the two parties and for resolution of disputes that may arise in the course of execution of the contract. Conditions of Contract (International) prepared by the Federation International Des Ingenious Conseils (FIDIC) jointly with the federation International du Batiment et des Travaux Publics (FIBTP).

The Construction Works Policy of ECGC is designed to protect the Contractor from 85% of the losses that may be sustained by him due to the following risks:

1. insolvency of the Employer (when he is a non—Government entity);
2. failure of the Employer to pay the amounts that become payable to Contractor in terms of the Contract, including any amount payable under an arbitration award;
3. restrictions on transfer of payments from the Employer's country to India after the Employer has made the payments in local currency;
4. failure of the Contractor to receive any sum due and payable under the Contract by reason of war, civil war, rebellion etc;
5. the failure of the Contractor to receive any sum that is payable to him on termination or frustration of the Contract if such failure is due to its having become impossible to ascertain the amount or its due date because of war, civil war, rebellion etc;
6. imposition of restrictions on import of goods or materials (not being the Contractor's plant or equipment) or cancellation of authority to import such goods or cancellation of export licence in India, for reasons beyond his control; and

7. interruption or diversion of voyage outside India, resulting in his incurring in respect of goods or materials exported from India, of additional handling, transport or insurance charges which cannot be recovered from the Employer.

Risks not covered

The Construction Work Policy excludes from its purview losses which may be sustained due to the following causes:

1. failure of the Contractor and/ or the Employer (where the Employer is not a government) to obtain, issue or deliver any authority necessary under the law of India or the Employer's country for execution of the Project and to make payment thereof;
2. risks which can normally be insured with commercial insurers;
3. insolvency, default or negligence of any agent, seller or sub-contractor;
4. execution of any works or incurring of any expenses by the Contractor after the Employer has been in default in making any payment for a period of 120 days unless, on an application made by the Contractor for the purpose within 90 days of such default, the Corporation has agreed to his continuing execution of the contract despite the said default of the Employer;
5. execution of any works or incurring of any expenses by the Contractor after the estimated date for completion of the contract unless, at the request of the Contractor, the Corporation has agreed to a change in such date.

Premium

Premium rate will be dependent on the classification of the Employer's country and the payment terms and will be quoted by the Corporation on request. The rate will be applied on the Estimated Contract value to arrive at the amount of premium payable to the Corporation and this amount of premium is payable in advance. The Contractor is obliged to notify the Corporation if the estimated contract value undergoes any change and the premium will be adjusted accordingly.

Declaration

The Contractor is required to submit to the Corporation such periodical declarations as may be prescribed by it relating to the execution of the contract and the position of payments thereunder.

Ascertainment of Loss

When a loss arises due to any of the risks insured, the amount of loss shall be ascertained by the Corporation, after the Contractor files a claim under the Policy, in accordance with the provisions of clause 16 of the Policy. It should, however, be noted that, where the Contractor has been simultaneously executing certain other contracts also for the same Employer, all amounts paid by the Contractor shall be allocated to the amounts outstanding under all the Contracts in the chronological order of the due dates of payment of those amounts, irrespective of whether such other contracts have been insured by the Corporation or not.

Payment of Claim

If a claim is admitted under the Policy, the Corporation shall make payment of the amount direct to the Contractor's bank in India which may have a right or lien over the receivables under the Contract. The payment shall be subject to the Contractor giving the Corporation an undertaking to the effect that he will take all steps, including such steps as may be suggested by the Corporation, to recover the dues from the Employer and to pass on the Corporation its share of the amounts so recovered. The Contractor shall, if required to do so, support such an undertaking with a bank guarantee for an amount equal to the amount of claim. The amount of claim paid by the Corporation shall become refundable to the Corporation with interest if the Contractor fails to take steps for effecting recovery.

Exchange rate for the purpose of Cover, Claim and Recovery

The liability of the Corporation under the Policy will be in terms of Indian Rupee. If the contract value is expressed in a foreign currency, it shall be converted into Indian Rupees at the rate specified in the Policy, the rate being approximately the same as the Bank Buying Rate of Exchange on the date of contract, for the purpose of determining the amount covered and the Maximum Liability of the Corporation under the Policy.

The same exchange rate shall be used by the Contractor for the purpose of submitting periodical declarations to the Corporation. However, if the currency in which the Employer has to pay been devalued before a claim is paid by the Corporation, the amount claimed by the Contractor in Indian Rupees shall be based on the devalued rate. Recoveries will be reckoned, net of recovery expenses at the actual rate at which the amounts recovered were converted by the receiving bank into Rupees and such amounts shall be divided between the Corporation and the Contractor in the same ratio in which the loss was originally borne by the two, irrespective of whether or not such division results in the Corporation retaining an amount greater or lesser then the amount paid by to as claim.

Note : *The services offered by ECGC are in the nature of credit insurance products. It would be necessary for the interested persons to consult ECGC for ascertaining specific terms of cover.*

Chapter-8

SPECIFIC POLICIES FOR SUPPLY CONTRACTS

The Standard Policy is a whole turnover policy designed to provide a continuing insurance for the regular flow of an exporter's shipments for which credit period does not exceed 180 days. Contracts for export of capital goods or turnkey Projects or construction works or rendering services abroad are not of a repetitive nature and they involve medium/long-term credits. Such transactions are, therefore, insured by ECGC on a case-to-case basis under specific policies.

All contracts for export on deferred payment terms and contracts for turnkey Projects and construction works abroad require prior clearance of Authorised Dealers, EXIM Bank or the Working Group in terms of powers delegated to them as per exchange control regulations (Kindly refer to 'Projects Exports Manual' of Reserve Bank of India. For further details go to http://www.rbi.org). Applications for the purpose are to be submitted to the Authorised Dealer (the financing bank), which will forward applications beyond its delegated powers to the EXIM Bank. Proposals for Specific Policy are to be made to ECGC after the contract has been cleared by the Authorised Dealer, EXIM Bank or the Working Group, as the case may be.

The different policies are:

1. Specific Shipment (Comprehensive Risks) Policy;
2. Specific Shipments (Political Risks) Policy;
3. Specific Contract (Comprehensive Risks) Policy; and
4. Specific Contract (Political Risks) Policy.

Specific Shipments (Comprehensive Risks) Policy provides cover against all the risks covered under the Standard Policy for shipments to be made under the contract in question (For details of risks, click here). It is, therefore, the appropriate policy for an exporter to take if the payments are open to both commercial and political risks. Where the Commercial risks are absent, e.g. where the payments are guaranteed by a bank or by the Government of the overseas country, the exporter may opt for the Specific Shipments (Political Risks) Policy for which the premium rate will be lower than that for the Comprehensive Risks Policy.

Specific Contract Policy (which also can be for comprehensive or political risks) differs from Shipments Policy in that the former provides the exporter not only with the post-shipment cover like the latter but also with some pre-shipment cover from the date of contract. In case shipments could not be made due to any of the risks covered or due to restriction on export of the goods from India, the loss in respect of unshipped goods will also be covered under Contract Policies. Premium rates for Contract Policies will be higher than that for Shipment Policies.

Terms of payment

To be eligible for cover under specific policies, the terms of payment for the export contracts should be in line with customary practices in the international markets. At least, 15% of the contract value should be payable before shipment including an advance payment of at least 5%. The balance amount should be repayable in equal semi-annual instalments commencing six months after the date of shipment. Where the contract provides for supply and erection of a complete plant, the first instalment may fall due after six months from the date of commissioning of the plant. The credit period should not normally exceed 5 years. Longer credit period may be approved only in the case of exceptionally large Projects if the circumstances of the case justify it. Adequate security should be obtained in the form of government guarantee or bank guarantee.

Applicable premium rates

The premium rates will depend on the country to which exports are to be made and the repayment period. To find out the premium payable for any particular contract, click here.

In order to be sure about the availability of the cover, exporters are advised to get in-principle approval of ECGC and obtain the premium rates well before concluding contracts. If the terms and conditions of the contract undergo any change subsequently, ECGC should be informed of the same, so that changes, if any, in the applicable premium rates can be ascertained.

When is the premium to be paid?

The entire premium is normally payable in advance. Instalment facility may be granted for payment of a part of the premium if the contract value is very large and if the shipments are spread over a relatively long period, but the entire premium will have to be paid by the time the last shipment is made. Interest will be charged for the instalment facility.

Chapter-9

Export Performance Guarantee

Exporters are often called upon to execute bonds duly guaranteed by an Indian bank at various stages of export business. An exporter who desires to quote for a foreign tender may have to furnish a bank guarantee for the bid bond. If he wins the contract, he may have to furnish the bank guarantees to the foreign buyers to ensure due performance or against advance payment or in lieu of retention money or to a foreign bank in case he has to raise overseas finance for his contract. Further, for obtaining import licences for raw materials of capital goods, exporters may have to execute an undertaking to export goods of specified value within a stipulated time, duly supported by bank guarantees. Bank guarantees are also furnished by exporters to the Customs, Central excise or Sales tax authorities for the purpose of clearing goods without payment of duty or for exemption from tax for goods procured for export. Exporters also furnish Guarantees in support of the export obligations to Export Promotion Councils, Commodity Boards, the State Trading Corporation of India, the Minerals and Metals Trading Corporation of India or recognised Export Houses.

An export proposition may be frustrated if the exporter's bank is unwilling to issue the guarantee. The Export Performance Guarantee is aimed at meeting such situations.

Export Performance Guarantee is an insurance cover for banks, which issues various kinds of guarantees on behalf of exporters in order to facilitate export transactions. The insurance is provided by ECGC with the objective of enabling exporters to obtain the required guarantee facility from banks on easy terms. The Guarantee, which is in nature of a counter guarantee to the bank, is issued to protect the bank against losses that it may suffer on account of guarantees given by it on behalf of export purposes.

Export Performance Guarantee (EPG) may be issued to a bank to cover any guarantee that it may issue in connection with an export transaction. A list of such guarantees is listed below.

- Bid Bond or Bid Guarantee, which is required to be submitted along with bids for export contracts.
- Performance Bond or Performance Guarantee which is issued to the foreign buyer for due performance of the contract.
- Advance Payment Guarantee, which is issued to the foreign buyer against advance payment, received from the buyer.
- Retention Money Guarantee issued to the foreign buyer in lieu of his retaining a portion of each payment as Retention Money.
- Guarantee issued to an overseas bank for the purpose of enabling the foreign bank to extend foreign currency loan/ advance to the Indian exporter for the purpose of executing an export contract.
- Guarantee issued to the Customs Authorities in India in lieu of Customs duty payable on imported raw material or components meant for manufacturing goods for export.
- Guarantee issued to Import Control Authorities in India in support of export undertakings given by the exporter who gets advance import licence.
- Guarantee issued to Sales Tax Authorities in lieu of payment of sales tax on goods meant for export.
- Guarantee issued to Export Promotion Council against allotment of export quota.

EPG provides cover to the bank against the risk of loss involved in issuing the above types of guarantees. For the purposes of EPG, a loss will be deemed to have arisen when the bank is unable to recover from the exporter the money that it has had to pay to the beneficiary of the guarantee on his invoking it. The bank will have to ensure that:

1. The guarantee was invoked by the beneficiary
2. The amount demanded by the beneficiary was paid by it strictly in accordance with the guarantee
3. The exporter was called upon to reimburse the bank with the said amount and,
4. The exporter has failed to discharge the debt so created

The risk insured under the EPG are the insolvency of the exporter and its protracted default. Normally a cover is extended upto 75% of loss but in the case of guarantees in connection with bid bonds, performance bonds advance payment and local finance guarantees and guarantees in lieu of retention money, the cover may be increased upto 90% subject to proportionate increase in premium.

While the premium rate for Guarantee issued to cover bond relating to exports on short-term credit is 0.90% p.a. for 75% cover and 1.08% p.a. for 90 % cover, it is lower for bonds, relating to exports on deferred credit and Projects. The rate of premium is 0.80% p.a. for 75% cover and 0.95% for 90% cover. In case of Bid Bonds relating to exports on medium/long term credit, overseas Projects, and Projects in India financed by international financial institutions as well as supplies to such Projects, ECGC is agreeable to issue Export Performance Guarantee on payment of 25% of the prescribed premium. The balance of 75% becomes payable to the Corporation by the bankers if the exporter succeeds in the bid and gets the contract.

In order to reduce the cost of participating in global tenders for export of capital goods or Projects, EPG to cover the related Bid Bond Guarantees are issued on payment of 25% of the premium due. No further premium is payable if the exporter is not declared successful in the bid. The balance amount of the premium will have to be paid only if the exporter succeeds in the bid.

EPG can be obtained either to cover a specified single guarantee or for all the guarantees that may be issued during a period of 12 months on account of a specified exporter. Where EPC is taken for a single guarantee, the bank is required to pay the full premium in advance. EPG for covering all the guarantees that may be issued over a 12 month period on behalf of a single exporter will be issued on payment of small Guarantee Fees. Thereafter, the bank will have to pay premium on the value of each guarantee, as and when it is issued.

Exporters and Bankers can obtain proposal forms from the nearest branch of the Corporation.

Chapter-10

Facilities and Benefits

Certain facilities and benefits in the fields of deemed Project exports, export finance, market development assistance, direct and indirect tax are available to exporters, as provided by the Government. These will be evident from the following pages:

10.1 Deemed Project exports :

Supply of goods and services to Projects in India financed by multilateral or bilateral agencies/funds as notified by the Department of Economic Affairs, Ministry of Finance, under the International Competitive Bidding or under limited tender system in accordance with the procedures of these agencies/funds, where the legal agreements provide for tender evaluation without including the Custom Duty are treated as deemed Project exports.

(A) Supply of Projects financed by the following agencies will be considered as deemed Project exports:

i) World Bank (i.e IBRD and IDA) International Bank for Reconstruction and Developmental and the International Developmental Agency

ii) International Fund for Agricultural Development (IFAD)

iii) Asian Development Bank (ADB)

iv) Organisation of Petroleum Exporting Countries (OPEC) Fund

v) Yen Credit Channelised through Overseas Economic Cooperation Fund (OECF)

vi) Swedish International Developmental Agency (SIDA)

vii) Any other notification, approved by Ministry of Finance, in this behalf.

(B) Chapter 8 of the Foreign Trade Policy of the Government of India on "deemed exports"is classified as under:

"Deemed Exports" refers to those transactions in which the goods supplied do not leave the country and the payment for such supplies is received either in Indian rupees or in free foreign exchange.

Categories of Supply

The following categories of supply of goods by the main/ sub-contractors shall be regarded as "Deemed Exports" under this Policy, provided the goods are manufactured in India:

(a) Supply of goods against Advance Licence / Advance Licence for annual requirement/DFRC under the Duty Exemption /Remission Scheme;

(b) Supply of goods to Export Oriented Units (EOUs) or Software Technology Parks (STPs) or Electronic Hardware Technology Parks (EHTPs) or Bio Technology Parks (BTP);

(c) Supply of capital goods to holders of licences under the Export Promotion Capital Goods (EPCG) scheme;

(d) Supply of goods to Projects financed by multilateral or bilateral agencies/funds as notified by the Department of Economic Affairs, Ministry of Finance under International Competitive Bidding in accordance with the procedures of those agencies/ funds, where the legal agreements provide for tender evaluation without including the customs duty;

(e) Supply of capital goods, including in unassembled/ disassembled condition as well as plants, machinery, accessories, tools, dies and such goods which are used for installation purposes till the stage of commercial production and spares to the extent of 10% of the FOR value to fertilizer plants;

(f) Supply of goods to any Project or purpose in respect of which the Ministry of Finance, by a notification, permits the import of such goods at zero customs duty;

(g) Supply of goods to the power Projects and refineries not covered in (f) above;

(h) Supply of marine freight containers by 100% EOU (Domestic freight containers-manufacturers) provided the said containers are exported out of India within 6 months or such further period as permitted by the customs;

(i) Supply to Projects funded by UN agencies; and

(j) Supply of goods to nuclear power Projects through competitive bidding as opposed to International Competitive Bidding.

The benefits of deemed exports shall be available under paragraph (d), (e), (f) and (g) only if the supply is made under the procedure of International Competitive Bidding (ICB).

Benefits for Deemed Exports

Deemed exports shall be eligible for any/all of the following benefits in respect of manufacture and supply of goods qualifying as deemed exports subject to the terms and conditions as given in Handbook (Vol.1):-

(a) Advance Licence for intermediate supply/ deemed export/DFRC/ DFRC for intermediate supplies.

(b) Deemed Export Drawback.

(c) Exemption from terminal excise duty where supplies are made against International Competitive Bidding . In other cases , refund of terminal excise duty will be given.

Benefits to the Supplier

(i) In respect of supplies made against Advance Licence in terms of paragraphs 8.2(a) of the Policy, the supplier shall be entitled to Advance Licence for intermediate supplies.

(ii) If the supplies are made against Advance Release Order (ARO) or Back to Back Letter of Credit issued against Advance Licence in terms of paragraphs 4.1.11 and 4.1.12 of the Policy, supplier shall be entitled to the benefits listed in paragraphs 8.3(b) and (c) of the Policy, whichever is applicable.

(iii) If the supplies are made against Advance Release Order (ARO) or Back to Back Letter of Credit issued against DFRC, the supplier shall be entitled to the benefit listed in paragraph 8.3(b) of the Policy.

In respect of supply of goods to EOU/ EHTP/ STP/BTP in terms of paragraphs 8.2 (b) of the Policy, the supplier shall be entitled to the benefits listed in paragraph 8.3(a),(b)and (c) of the Policy, whichever is applicable.

In respect of supplies made under paragraph 8.2(c) of the Policy , the supplier shall be entitled to the benefits listed in paragraph 8.3(a), (b) and (c), of the Policy, whichever is applicable.

(i) In respect of supplies made under paragraphs 8.2 (d), (f) and (g) of the Policy, the supplier shall be entitled to the benefits listed in paragraphs 8.3(a), (b) and (c),whichever is applicable.

(ii) In respect of supplies mentioned in paragraph 8.2(d), supplies to the Projects funded by such agencies alone, as may be notified by Department of Economic Affairs, Ministry of Finance, shall be eligible for deemed export benefits. A list of such agencies/ funds is given in Appendix-13 of Handbook (Vol.I).

(iii) The benefits of deemed exports under para 8.2(f) of the Policy shall be applicable in respect of items, import of which is allowed by the Department of Revenue at zero customs duty subject to fulfillment of conditions specified under Notification No.21/2002-Customs dated 1.3.2002, as amended from time to time.

(iv) Supply of Capital goods and spares upto 10% of the FOR value of the capital goods to the power Projects in terms of paragraphs 8.2(g) shall be entitled for deemed export benefits provided the International Competitive Bidding procedures have been followed at Independent Power Producer (IPP)/Engineering and Procurement Contract(EPC) stage. The benefit of deemed exports shall also be available for renovation/ modernization of power plants. The supplier shall be eligible for benefits listed in paragraph 8.3(a) and (b) of the Policy, whichever is applicable. However , supply of goods required for setting up of any mega power Projects as specified in S.No. 400 of Department of Revenue Notification No.21/2002-Customs dated 1.3.2002, as amended, shall be eligible for deemed exports benefits as mentioned in paragraph 8.3(a), (b) and (c) of the Policy, whichever is applicable, if such mega power Project is –

(a) an inter state thermal power plant of capacity of 1000 MW or more; or

(b) an inter state Hydel power plant of capacity of 500 MW or more.

(v) Supplies under paragraph 8.2(g) of the Policy to the new refineries being set up during the Ninth plan period and spilled over to the Tenth plan period shall be entitled for deemed export benefits in respect of goods mentioned in list 17 specified in S.No.228 of Notification No.21/2002-Customs dated 1.3.2002, as amended from time to time.

In respect of supplies made under paragraph 8.2(e) of the Policy, the supplier shall be eligible for the benefits listed in paragraph 8.3(a) and (b) of the Policy, whichever is applicable. The benefit of deemed exports shall be available in respect of supplies of capital goods and spares to fertilizer plants which are set up or expanded/ revamped/ retrofitted/modernized during the Ninth Plan period. The benefit of deemed exports shall also be available on supplies made to Fertilizer plants, which have started in the 8th /9th Plan periods and spilled over to the 10th Plan period.

The supplies of goods to Projects funded by UN agencies covered under Para 8.2(i) of the Policy are eligible for benefits listed in paragraph 8.3(a) and (b) of the Policy, whichever is applicable

In respect of supplies made to nuclear Power Projects under para 8.2(j) of the policy, the supplier would be eligible for benefits given in para 8.3 (a), (b) and (c) of the Policy, whichever is applicable. Supply of only those goods required for setting up any nuclear power Project specified in list 43 at S.No.401 of Notification No.21/2002-Customs dated 1.3.2002,as amended from time to time having a capacity of 440 MW or more as certified by an officer not below the rank of Joint Secretary to the Government of India in the Department of Atomic Energy shall be entitled for deemed exports benefits in cases where the procedure of competitive bidding (and not international competitive bidding) has been followed.

Eligibility for refund of terminal excise duty/drawback

Supply of goods will be eligible for refund of Terminal Excise Duty in terms of para 8.3 (c) of Policy provided the recipient of the goods does not avail CENVAT credit /rebate on such goods. Similarly, supplies will be eligible for deemed export drawback in terms of para 8.3(b) of Policy on the Central Excise paid on inputs /components, provided CENVAT credit facility/rebate has not been availed by the applicant. Such supplies will however be eligible for deemed export drawback on the customs duty paid on the inputs/components.

Supplies to be made by the main/sub-contractor In all cases of deemed exports, supplies shall be made directly to the designated Projects/ Agencies/ Units/ Advance Licence / EPCG licence holders. The sub-contractor may, however, make the supplies to the main contractor as per paragraph 8.4 of Handbook instead of designated Projects/ agencies.

Supplies made by an Indian sub-contractor of an Indian or foreign main contractor, shall also be eligible for deemed export benefits provided the name of the sub-contractor is indicated either originally or subsequently in the contract, and payment certificate is issued by the Project authority in the name of the sub-contractor in the form given in Appendix 22C of Handbook (Vol.I).

10.2 Export Finance:

The various export finance available to the exporters are listed below:

(i) Pre-shipment Finance or Packing Credit:

'Pre-shipment/Packing Credit' means any loan or advance granted or any other credit provided by a bank to an exporter for financing the **purchase, processing, manufacturing** or **packing of goods** prior to shipment, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person, **unless lodgement** of export orders or letter of credit with the bank **has been waived.**

Rupee Pre-shipment Credit to Construction Contractors

(i) The packing credit advances to the construction contractors to meet their initial working capital requirements for execution of contracts abroad may be made on the basis of a firm contract secured from abroad, in a separate account, on an undertaking obtained from them that the finance is required by them for incurring preliminary expenses in connection with the execution of the contract e.g., for transporting the necessary technical staff and purchase of consumable articles for the purpose of executing the contract abroad, etc..

(ii) The advances should be adjusted within 180 days of the date of advance by negotiation of bills relating to the contract or by remittances received from abroad in respect of the contract executed abroad. To the extent the outstandings in the account are not adjusted in the stipulated manner, banks may charge normal rate of interest on such advance.

(iii) The exporters undertaking Project export contracts including export of services may comply with the guidelines/instructions issued by Reserve Bank of India, Exchange Control Department, Central Office, Mumbai from time to time.

Export of Consultancy Services

(i) Some of the Indian consultancy firms have taken up export of consultancy services in connection with the setting up of industrial and other Projects in foreign countries. Where such consultancy services form part of turnkey Projects or joint ventures set up abroad, banks are considering suitable credit facilities at the pre-shipment and post-shipment stages. The exporters may need financial assistance from banks even in cases where consultancy services alone are exported, particularly, if no advance payments are received.

(ii) Banks may consider granting suitable pre-shipment credit facilities against consultancy agreements to consultancy firms for meeting the expenses of the technical and other staff employed for the Project and purchase of any materials required for the purpose as well as for export of computer software, both standard and custom built software programs, subject to the usual conditions of packing credit scheme.

(iii) While deciding the pre-shipment facilities, advance payments received against the contract must be taken into account.

(iv) Banks may consider issuing suitable guarantees to exporters of consultancy services of high value with large advance payment, taking into account the competence of the firm to undertake the assignment in question and other related aspects.

Documentation for obtaining packing credit

The following documents are to be submitted along with applications for the packing credit.

a) Confirmed export order, contract papers or Letter of Credit

b) An undertaking that the amount of advance/loan shall be utilised for the specific purpose as stated in the confirmed export order or L/C

c) Joint and several demand pronote signed on behalf of firm/co. and partner/Director individually

d) Letter of pledge for cash credit against goods in case of pledge or agreement of hypothecation

e) Letter of authority to operate the Account

f) Agreement to utilise the money as per terms of contract

g) A copy of constitution, certificate of incorporation or commencement of business with certified copy of Board Resolution in case of company or Partnership deed in case of Partnership firm.

h) Letter of hypothecation of bills

i) Copy of IEC No.

j) Copy of valid RCMC

k) Guarantee papers from ECGC, if applicable

l) Audited Statement of Accounts for the last three years.

m) Copies of Income Tax Assessment Orders for last 3 years.

n) Any other documents as required by Bank under Banking regulations.

(ii) Post Shipment Finance:

Post shipment credit is available to an exporter of goods, after the date of shipment of goods to the date of realisation of export proceeds and also include any credit/loan on consideration of or on security of any drawback or other incentives available from the Government.

The following types of credits/finances are available to the exporter on post-shipment basis:-

i) Export documentation under Letter of Credit in respect of its terms of negotiation/payments etc.

ii) Purchase/discount of export documents under confirmed orders/export contracts

iii) Advances against duty drawback entitlement

iv) Advance against bills sent on collection basis

v) Advances against export on consignment basis

vi) Advances against payments outstanding from the client

vii) Advances against cash incentives

viii) Advances against retention money

ix) Advances under DPA, turnkey Projects and construction contracts etc.

Post financing facilities:

The packing and post-shipment credits are given for a maximum period of 180 days. However, as per RBI guidances, exports under 'Deferred Payment terms' are given/extended for more than 180 days. Only export of engineering goods and Project exports are eligible for credit of more than 180 days.

The usual terms of deferred payment exports are the contracts which normally provide for payment of a certain portion of the invoice value as advance or down payment, the balance being payable in installments spread over a period of time.

Project exports eligible for export finance are categorised as under:

i) Turnkey Projects

ii) Civil construction Projects; and

ii) Service Contracts

Advances against Retention Money

(i) In the case of turn-key Projects/construction contracts, progressive payments are made by the overseas employer in respect of services segment of the contract, retaining a small percentage of the progressive payments as retention money which is payable after expiry of the stipulated period from the date of the completion of the contract, subject to obtention of certificate(s) from the specified authority.

(ii) Retention money may also be sometimes stipulated against the supplies portion in the case of turn-key Projects. It may likewise arise in the case of sub-contracts. The payment of retention money is contingent in nature as it is a defect liability.

(iii) The following guidelines should be followed in regard to grant of advances against retention money:

(a) **No advances** may be granted against retention money relating to **services portion** of the contract.

(b) Exporters may be advised to arrange, as far as possible, provision of suitable guarantees, instead of retention money.

(c) Banks may consider, on a selective basis, granting of advances against retention money relating to the **supplies portion** of the contract taking into account, among others, the size of the retention money accumulated, its impact on the liquid funds position of the exporter and the past performance regarding the timely receipt of retention money.

(d) The payment of retention money may be secured by L/C or Bank Guarantee where possible.

(e) Where the retention money is payable within a period of one year from the date of shipment, according to the terms of the contract, banks should charge prescribed concessive rate of interest upto a maximum period of 90 days. The rate of interest prescribed for the category 'ECNOS' at post-shipment stage may be charged for the period beyond 90 days.

(f) Where the retention money is payable after a period of one year from the date of shipment, according to the terms of the contract and the corresponding advance is extended for a period exceeding one year, it will be treated as post-shipment credit given on deferred payment terms exceeding one year, and the rate of interest for that category will apply.

(g) Advances against retention money will be eligible for concessional rate of interest only to the extent the advances are actually repaid by remittances received from abroad relating to the retention money and provided such payments are received within 180 days from the due date of payment of the retention money, according to the terms of the contract.

Post-shipment Credit on Deferred Payment Terms

Banks may grant post-shipment credit on deferred payment terms for a period exceeding one year, in respect of export of capital and producer goods as specified by RBI (FED) from time to time.

Post-shipment Advances against Duty Drawback Entitlements

Banks may grant post-shipment advances to exporters against their duty drawback entitlements as provisionally certified by Customs Authorities pending final sanction and payment.

The advance against duty drawback receivables can also be made available to exporters against export promotion copy of the shipping bill containing the EGM Number issued by the Customs Department. Where necessary, the financing bank may have its lien noted with the designated bank and arrangements may be made with the designated bank to transfer funds to the financing bank as and when duty drawback is credited by the Customs.

These advances granted against duty drawback entitlements would be eligible for concessional rate of interest and refinance from RBI upto a maximum period of 90 days from the date of advance.

ECGC Whole Turnover Post-shipment Guarantee Scheme

The Whole Turnover Post-shipment Guarantee Scheme of the Export Credit Guarantee Corporation of India Ltd. (ECGC) provides protection to banks against non-payment of post-shipment credit by exporters. Banks may, in the interest of export promotion, consider opting for the Whole Turnover Post-shipment Policy. The salient features of the scheme may be obtained from ECGC.

As the post-shipment guarantee is mainly intended to benefit the banks, the cost of premium in respect of the Whole Turnover Post-shipment Guarantee taken out by banks may be absorbed by the banks and **not** passed on to the exporters.

Where the risks are covered by the ECGC, banks should not slacken their efforts towards realisation of their dues against long outstanding export bills.

DEEMED EXPORTS - *CONCESSIVE RUPEE EXPORT CREDIT*

Banks are permitted to extend rupee pre-shipment and post-supply rupee export credit at concessional rate of interest to parties against orders for supplies in respect of Projects aided/financed by bilateral or multilateral agencies/funds (including World Bank, IBRD, IDA), as notified from time to time by Department of Economic Affairs, Ministry of Finance under the Chapter "Deemed Exports" in Exim Policy, which are eligible for grant of normal export benefits by Government of India.

Packing Credit provided should be adjusted from free foreign exchange representing payment for the suppliers of goods to these agencies. It can also be repaid/prepaid out of balances in Exchange Earners Foreign Currency account (EEFC A/c), as also from the rupee resources of the exporter to the extent supplies have actually been made.

Banks may also extend rupee

(i) pre-shipment credit, and

(ii) post-supply credit (for a maximum period of 30 days or upto the actual date of payment by the receiver of goods, whichever is earlier).

to other categories of supply of goods specified as 'Deemed Exports' under the same Chapter of Exim Policy from time to time.

The post-supply advances would be treated as overdue after the period of 30 days. In cases where such overdue credits are liquidated within a period of 180 days from the notional due date (i.e. before 210 days from the date of advance), the banks are required to charge, for such extended period, interest prescribed for the category 'ECNOS' at post-shipment stage. If the bills are not paid within the aforesaid period of 210 days, banks should charge from the date of advance, the rate prescribed for 'ECNOS' - Post-shipment.

Banks would be eligible for refinance from RBI for such rupee export credits extended both at pre-shipment and post-supply stages.

Nature of Credit:

Contracts for export of goods on deferred payment terms may be financed either under suppliers' credit or buyers' credit Under supplier's credit, the exporter extends credit directly to the overseas buyer. Buyers' credits are credits extended to foreign buyers by authorised dealers or financial institutions in India including a corsortium of authorised dealers or financial institutions in India and the exporters realise the export values in Indian rupees from the institutions concerned directly.

10.3 Facilities to Exporters by Exim Bank

The facilities provided by EXIM Bank can be put into (1) Non-funded services and (2) funded services. In addition, the Bank also provides advisory and other services.

A) Financing Services

a) Non-funded

The Exim Bank's Non-funded services relate to bid bonds, advance payment and other guarantees as enumerated here.

- Bid Bond:

  Bid Bond is issued for a period of six months. Issuing Bank refunds 75% commission in case contract is not secured

- Advance Payment Guarantee:

  Exporters are expected to secure a mobilisation advance of 10-20% of the contract value which is normally released against bank guarantee.

- Performance Guarantee:

  It is issued for 5 to 10% of contract value, valid upto one year after completion of contract/maintenance period. Format of guarantee is expected to be furnished by exporter, at least four weeks before actual issue, to facilitate discussions and formal approval.

- Guarantee for Release of Retention Money:

  This enables the exporter to obtain the release of retention money (normally 10% of contract value) before obtaining Final Acceptance Certificate (FAC) from client.

- Guarantee for Raising Borrowings Overseas

  Bridging finance may be needed at the earlier phases of the contract to supplement the mobilisation advance. Upto 15% of the contract value may be raised in foreign currency from an overseas bank against this guarantee issued by a bank in India. Request for overseas borrowings must be supported by currency-wise cash flows, indicating also the outstanding letters of credit and L/C drawn schedule.

- Other Guarantees e.g. customs guarantee Guarantee commission

It is charged at rates stipulated by the Foreign Exchange Dealers Association of India (FEDAI). Margin requirement for issue of guarantee is generally waived by banks for Export Performance Guarantees. However, appropriate securities are availed of.

b) Funded Services

These services cover pre-shipment credit , post-shipment rupee credit, foreign currency loan, etc.

Pre-shipment Credit

It is given to finance the exports from India and the preliminary expenses relating to execution of Project. Commercial banks also extend this facility for definite periods.

Post-shipment Rupee Credit

It enables financing of exports, until progress payments are received.

Foreign Currency Loan:

It can be availed of from Exim Bank, at market rates to cover third country machinery purchases and procurements.

Deferred Credit:

Credit for contracts under deferred payment terms is available against security, for portion of the contract covering exports from India. Maximum period permissible for deferred credit is five years.

B) Advisory Services:

Exporters are encouraged to avail of Exim Bank's advisory services, with regard to opportunities in new markets and information on various countries. Prior consultation with Exim Bank would facilitate preparedness at bid submission stage.

C) Other Facilities:

These facilities are available to exporters subject to specific approval of RBI.

- Foreign Exchange remittance to meet initial expenses.
- Inter-Project transfer of funds
- Opening of overseas bank accounts/site/liaison offices, payment of agency commission.
- Opening of liaison offices
- Opening of site offices
- Payment of agency commission

Risk Coverage:

The risk of non-payment, exchange fluctuation, etc are covered by the ECGC as follows:

- Risk of Non-Payment

  Export Credit Guarantee Corporation of India Ltd (ECGC) provides cover in the form of specific policies covering non-payment by a Government buyer (85% risk covered) or a private buyer (75% risk covered)

- Risk of Exchange Fluctuation

Exporter can obtain cover to protect himself against losses due to variations in exchange rate, for payments denominated in specified currencies.

- ECGC also provides cover to Exim Bank/Commercial Banks for political/commercial risks assumed by them.

Eligibility

Construction and civil engineering firms who wish to avail of the facilities are expected to have:

- Proven track record
- Clearance from the Screening Committee of the Project Exports Promotion Council of India (PROJECT EPC)
- Financial base commensurate with the risks involved

Procedure:

The proposal is to be submitted in the prescribed application form along with implementation schedule, cash flow for foreign currency portion and write-up with regard to site and infrastructural conditions, and sub-contracting arrangements envisaged. In case the bid is being made to a non-Government buyer, status report on the client/prime contractor would first need to be obtained.

The completed applications are to be submitted to the sponsoring bank, for consideration, at least seven working days in advance of the bid submission date.

Authorised Dealers and Exim Bank can clear bids valued upto US$100 million. for construction Projects at their discretion and reference to Working Group is not required. In case Exim Bank's participation is required, the sponsoring bank may make a specific request in the matter to Exim Bank.

It would also be necessary to consult ECGC in advance in case where its insurance cover and/or counter guarantees are required. Reference to Working Group is not required.

For contracts valued above US$100Million, Working Group clearance is a prerequisite; the application are forwarded by the sponsoring banks with their comments, to the following agencies which constitute the Working Group:

- Exim Bank, Bombay
- Reserve Bank of India
- Exchange Control Department, Bombay
- Reserve Bank of India, Industrial & Export Credit Department, Bombay
- Export Credit Guarantee Corporation of India Limited, Bombay
- Ministry of Finance, Department of Economic Affairs (EA), New Delhi.
- Ministry of Commerce & Industry, New Delhi.
- Other participating banks

Exporters are required to consult Exim Bank/Working Group, before effecting any changes in the pricing and terms and conditions of the offer.

After Bid Submission

Exporters are expected to keep Exim Bank/Working Group, informed regarding the bid results and progress of negotiations. In the event the bid is not secured, relevant information regarding the successful bid may be advised.

In case the contract is secured, the exporter should expeditiously approach his Bankers, ECGC and RBI-ECD for formal extension of the necessary facilities. The exporter is expected to supply Exim Bank a copy of the contract/relevant excerpts, and also the quarterly budgeted plans in terms of quantities of work and billing.

Exporters are expected to submit quarterly Project progress reports/Project monitoring report to Exim Bank and other members of the Working Group as per format, along with details of important developments, which are likely to have a bearing on the Project performance or financial implications.

In order to enable Exim Bank to quickly process fresh proposals, updated information with regard to annual reports (for preceding three years), articles of association, Board of Directors and consolidated status of all Projects may be made available so that need for calling this information each time a proposal is received is avoided.

Finance for Rupee Expenditure for Project Export Contracts (FREPEC)

This programme seeks to Finance Rupee Expenditure for Project Export Contracts, incurred by Indian companies.

The purpose of this credit is to enable Indian Project exporters to meet Rupee expenditure incurred/required to be incurred for execution of overseas Project export contracts such as for mobilisation/purchase/acquisition of materials and equipment, mobilisation of personnel, payments to be made in India to staff, sub-contractors, consultants and to meet Project related overheads in Indian Rupees.

Indian Project exporters who are to execute Project export contracts overseas secure on cash payment terms or those funded by multilateral agencies will be eligible. The purpose of the new lending programme is to give boost to Project export efforts of companies with good track record and sound financials.

Quantum of credit extended under this programme is upto 100% of the peak deficit as reflected in the Rupee cashflow statement prepared for the Project. Exim Bank will not normally take up cases involving credit requirement below Rs. 50 lakhs. Although, no maximum amount of credit is being proposed, while approving overall credit limit, credit-worthiness of the exporter-borrower would be taken into account. Where feasible, credit may be extended in participation with sponsoring commercial bank(s).

Disbursements will made in Rupees through a bank account of the borrower-company against documentary evidence of expenditure incurred accompanied by a certificate of Chartered Accountants.

Repayment of credit would normally be out of Project receipts. Period of repayment would depend upon the Project cashflow statements, but will not exceed 4 (four) years from the effective date of Project export contract. The liability of the borrower to repay the credit and pay interest and other monies will be absolute and will not be dependent upon actual realisation of Project bills.

The security stipulated for FREPEC loan:

a. Hypothecation of Project receivables and Project moveables.

b. optional: where available

- Personal Guarantees of Directors of the Company.
- Available collateral security.

* Where cost is not prohibitive or where the borrower-company is prepared to bear the cost, packing credit guarantee of ECGC may be obtained.

10.4 Tax Incentives:

There are certain direct/indirect tax concessions available to the exporters. These are summarised in the following paragraphs:

(i) Direct Tax Concessions:

a. Any income by way of dividends or long term capital gains of a venture capital fund or a venture capital company from the investments made by way of equity shares in a venture capital undertaking engaged in the business of electricity, power, telecommunications or in the business of developing, maintaining and operating any infrastructure facility or things as may be notified by the Government in this behalf.

   {Section 10(23) F}

   Infrastructure facility shall mean road, highway, bridge, airport, port, rail system, water supply Project, irrigation Project, sanitation and sewerage system or any public facility of similar nature as may be notified in this behalf in the official Gazette and which fulfils the conditions specified in section 80-IA.

b. Certain income of an infrastructure capital fund or an infrastructure capital company can claim exemption u/s 10(23)(G) if certain conditions are satisfied.

c. Deduction in respect of profits and gains from 'housing Projects' aided by World Bank under section 80 HHBA of Income tax Act is available subject to fulfillment of certain conditions.

d. Deduction in respect of Developing and Building housing Projects is also available u/s 80-IA subject to fulfillment of certain conditions.

e. Deduction in respect of profits and gains from Projects outside India is available u/s 80 HHB of Income Tax Act subject to fulfillment of certain conditions.

f. Deduction in respect of profits from business of export out of India of any goods or merchandise u/s 80 HHC of the Income Tax Act, subject to certain terms & conditions

(ii) Indirect Tax/fiscal concessions:

a. Excise Duty on Exports:

   Though rebate of Excise duty paid on finished goods can be claimed after their export outside India, it is better to 'Export in bond' without payment of duty. Excise duty paid on raw materials and components used in export products is usually covered under the scheme of duty draw back.

i) Rebate of excise duty is paid on excisable goods exported to any country except Nepal and Bhutan (Notification No. 41/94-CE(NT) dt. 22/9/94).

ii) Rebate of duty is paid on excisable materials used in the manufacture of excisable goods exported outside India, except to Nepal and Bhutan (Notification No. 42/94-CE(NT) dt. 22.9.94)

iii) Export of all excisable goods in bonds but without payment of duty to Nepal/Bhutan for which payment is received in foreign exchange; (Notification No. 51/94-CE(NT) dt. 22.9.94)

b. Duty Drawback:

Duty Drawback is payable in respect of supplies of raw materials made from India for Projects abroad.

According to Rule 2(a) of the 'Drawback' rules, Drawback is a rebate of duty chargeable on any imported materials or excisable materials used in the manufacture of goods being exported outside India. Drawback may be allowed on the export of goods at such amount or such rates as may be determined by the Central Government from time to time.

There are three kinds of drawbacks:-

i) Drawback on re-export of duty paid imported goods including passenger's baggage, in the same state, under section 74 of the Customs Act, 1962;

ii) Drawback on deemed exports is also available to the exporters against supplies.

iii) Drawback on products manufactured out of various imported and/or indigenous raw materials/components on which custom and/or central excise duty has been paid, under section 75 of the Customs Act, 1962

c. Sales Tax Exemption:

No Sales Tax is payable in case goods are exported outside India. The only condition imposed is that the exporter must be a registered dealer with the Sales Tax Department. If he is not a registered dealer, he cannot utilise the facility for export of goods without payment of Sales Tax under Form - H.

Chapter-11

Supplier's Credit for Deferred Payment Exports

Exim Bank offers Supplier's Credit in Rupees or in Foreign Currency at post-shipment stage to finance export of eligible goods and services on deferred payment terms. List of eligible goods also include Construction materials including sanitary ware, tiles and precast cement products, false ceiling, flooring materials, pipes, decorative laminates, fittings, electricals and steel/aluminium doors and windows, provided they are exported as separate items and not as items forming part of civil construction/turnkey Projects. Supplier's Credit is available both for supply contracts as well as Project exports; the latter includes construction, turnkey or consultancy contracts undertaken overseas.

Exporters can seek Supplier's Credit in Rupees/ Foreign Currency from Exim Bank in respect of export contracts on deferred payment terms irrespective of value of export contracts.

General terms of Supplier's Credit

a. **Extent of Supplier's Credit**

100% of post-shipment credit extended by exporter to overseas buyer.

b. **Currency of Credit**

Supplier's Credit from Exim Bank is available in Indian Rupees or in Foreign Currency.

c. **Rate of Interest**

The rate of interest for Supplier's Credit in Rupees is a fixed rate and is available on request. Supplier's Credit in Foreign Currency is offered by Exim Bank on a floating rate basis at a margin over LIBOR dependent upon cost of funds.

d. **Security**
Adequate security by way of acceptable letter of credit and/or guarantee from a bank in the country of import or any third country is necessary, as per RBI guidelines.

e. **Period of Credit and Repayment**

Period of credit is determined for each proposal having regard to the value of contract, nature of goods covered, security, competition. Repayment period for Supplier's Credit facility is fixed coinciding with the repayment of post-shipment credit extended by Indian exporter to overseas buyer. However, the Indian exporter will repay the credit to Exim Bank as per agreed repayment schedule, irrespective of whether or not the overseas buyer has paid the Indian exporter.

Utilisation of Credit

Exim Bank enters into Supplier's Credit Agreement with Indian exporter as also with exporter's commercial bank in the event of the latter's participation in the Supplier's Credit. The Agreement covers details of draw-down, repayment, and includes an affirmation by Indian exporter that repayment to Exim Bank would be made on due date, regardless of whether due payments have or have not been received from overseas buyer.

i. **Negotiation of Documents**

Commercial bank negotiates export documents and seeks reimbursement of Supplier's Credit amount.

ii. **Supplier's Credit Claims**

Commercial bank seeks reimbursement of Supplier's Credit from Exim Bank along with

a. Annexure containing particulars of shipment/s made (drawal form and Annexure format are provided to banks at the time of issue of sanction).

b. Copies of shipping documents. On satisfying itself that the disbursement claim is in order, Exim Bank either credits the amount in Rupees under Rupee Supplier's Credit into the account of the commercial bank, maintained with Reserve Bank of India (RBI) at Mumbai, or the commercial bank's Nostro Account under Foreign currency Supplier's Credit and advises details of the amount credited to bank/exporter.

iii. **Repayment of Supplier's Credit**

The exporter repays principal amount of credit to Exim Bank as per agreed repayment schedule. Interest amounts are payable to Exim Bank half-yearly without any moratorium.

Supplier's Credit [Regulatory Norms] - Supply/Turnkey/Construction

RBI has laid down guidelines for Project exports and export of goods from India on deferred payment terms. RBI's guidelines relating to Project Export contracts are contained in Memorandum PEM published by RBI. It is a priced publication and available at any of the Regional Offices of RBI throughout India.

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Chapter-12

The Exchange Earner's Foreign Currency (EEFC) Account
(As on August 16, 2002)

What is an EEFC Account?
An account expressed in foreign currency and maintained with an Authorised Dealer, a bank dealing in foreign exchange, in India to credit prescribed percentage of earnings in convertible foreign currency.

Who can open an account?
A person resident in India which includes individual firms, companies etc.

What is the limit prescribed?

i) "Status Holder" Exporter	100% of earnings
ii) Individual professionals	100% of earnings
iii) 100% Export Oriented Units/Units in Export Processing Zones/Software Technology Parks/ Electronic Hardware Technology Parks	70% of earnings
iv) Others	50% of earnings

Types of Accounts
Non-interest bearing current/savings/term deposit account

Permissible Credits
- Earning in foreign exchange as per prescribed limits.
- Recredit of unutilized foreign exchange earlier withdrawn from such accounts.

Permissible Debits
- Payment towards all current account transactions such as travel, medical, studies abroad, permissible imports, commission, customs duty, etc. However, remittances towards gifts and donations exceeding USD 50000 per remitter/donor per annum are not permissible.
- Payments towards permissible capital account transactions.
- Payment in India to 100% Export Oriented Units/Units in Export Processing Zones/Software Technology Parks/Electronic Hardware Technology Parks towards cost of goods and services provided by them.
- Payment towards trade related loans and advances.
- Payment in foreign exchange to a person resident in India for supply of goods and services including payment for airfare and hotel expenditure.

Cheque Facility
Available.

Nomination Facility
Permitted like in case of any other resident accounts

Chapter-13
Forfaiting - An Export Finance Option

Forfaiting is a mechanism of financing exports.

- by discounting export receivables
- evidenced by bills of exchange or promissory notes
- without recourse to the seller (viz. exporter)
- carrying medium to long term maturities
- on a fixed rate basis (discount)
- upto 100 percent of the contract value.

The word `forfait' is derived from the French word `a forfait' which means the surrender of rights.

Simply put, forfaiting is the non-recourse discounting of export receivables. In a forfaiting transaction, the exporter surrenders, without recourse to him, his rights to claim for payment on goods delivered to an importer, in return for immediate cash payment from a forfaiter. As a result, an exporter in India can convert a credit sale into a cash sale, with no recourse to the exporter or his banker.

All exports of capital goods and other goods made on medium to long term credit are eligible to be financed through forfaiting.

Receivables under a deferred payment contract for export of goods, evidenced by bills of exchange or promissory notes, can be forfaited.

Bills of exchange or promissory notes, backed by co-acceptance from a bank (which would generally be the buyer's bank), are endorsed by the exporter, without recourse, in favour of the forfaiting agency in exchange for discounted cash proceeds. The banker's co-acceptance is known as avalisation. The co-accepting bank must be acceptable to the forfaiting agency.

The bills of exchange or promissory notes should be in the prescribed format.

The Exim Bank plays a role of a facilitator between the Indian exporter and the overseas forfaiting agency.

On a request from an exporter, for an export transaction which is eligible to be forfaited, Exim Bank will obtain indicative and firm forfaiting quotes - discount rate, commitment and other fees - from overseas agencies.

Exim Bank will receive avalised bills of exchange or promissory notes, as the case may be, and send them to the forfaiter for discounting and will arrange for the discounted proceeds to be remitted to the Indian exporter.

Exim Bank will issue appropriate certificates to enable Indian exporters to remit commitment fees and other charges.

Exim Bank has been authorised by the Reserve Bank of India vide AD (GP Series) Circular No. 3 dated February 13, 1992, and vide AD (M.A. Series) Circular No. 42 dated October 27, 1997 to facilitate export financing through forfaiting.

A forfaiting transaction has typically three cost elements;

- Commitment fee
- Discount fee

- Documentation fee

A commitment fee is payable by the exporter to the forfaiter for the latter's commitment to execute a specific forfaiting transaction at a firm discount rate within a specific time (normally not more than one year).

The commitment fee generally ranges between 0.5 percent and 1.5 percent per annum of the unutilised amount to be forfaited and is charged for the period between the date the commitment is given by the forfaiter and the date on while discounting takes place or until the validity of the forfait contract, whichever is earlier.

The commitment fee is payable regardless of whether or not the export contract is ultimately executed.

Discount fee is the interest cost payable by the exporter for the entire period of credit involved and is deducted by the forfaiter from the amount paid to the exporter against the avalised promissory notes or bills of exchange.

The discount fee is based on the relevant market interest rates as reflected by the prevailing London Inter-Bank Offered Rate (`LIBOR') for the credit period and currency involved, plus a premium for the risks assumed by the forfaiter.

The discount rate is applied to the aggregate principal and interest due on the debt instrument on its maturity, to arrive at the payout to the exporter. The discount rate is established at the time of executing a forfait contract between the exporter and the forfaiting agency.

Generally, no documentation fee is incurred in straightforward forfait transactions. However, if extensive documentation and legal work is necessary, a documentation fee may be charged.

Exim Bank will charge a service fee for facilitating the forfaiting transaction which will be payable in Indian rupees.

There may be additional costs levied by a forfaiter, such as handling charges, penalty etc. However, these costs are transaction-specific and will be specified, where applicable.

As per Reserve Bank of India's AD (GP Series) Circular No. 3 dated February 13, 1992, discount fee, documentation fee and any other costs levied by a forfaiter must be transferred to the overseas buyer. Commitment fee should also be passed on to the overseas buyer to the extent possible.

The exporter should finalise the export contract in a manner which ensures that the amount received in foreign exchange by the exporter after payment of forfaiting discount and other fees is equivalent to the price which he would obtain if goods were sold on cash payment terms.

Duty drawback will be computed only on FOB cost of goods i.e. invoice value less freight, insurance, if any, and forfait discount and other related fees.

Benefits accrue to an exporter from forfaiting

- Converts a deferred payment export into a cash transaction, improving liquidity and cash flow
- Frees the exporter from cross-border political or commercial risks associated with export receivables
- Finance upto 100 percent of the export value is possible as compared to 80-85 percent financing available from conventional export credit programmes
- As forfaiting offers without recourse finance to an exporter, it does not impact the exporter's borrowing limits. Thus, forfaiting represents an additional source of funding, contributing to improved liquidity and cash flow
- Provides fixed rate finance; hedges against interest and exchange risks arising from deferred export credit
- Exporter is freed from credit administration and collection problems
- Forfaiting is transaction specific. Consequently, a long term banking relationship with the forfaiter is not

necessary to arrange a forfaiting transaction

- Exporter saves on insurance costs as forfaiting obviates the need for export credit insurance
- Simplicity of documentation enables rapid conclusion of the forfaiting arrangement.

Duration of receivables eligible for forfaiting is normally between 1 year and 5 years.

The export contract can be executed in any of the major convertible currencies e.g. US Dollar, Deutsche Mark, Pound Sterling, Japanese Yen.

The minimum value of an export contract eligible for forfaiting and acceptable to a forfaiting agency will generally be the equivalent of US $1,00,000.

Eligibility of an export transaction for forfaiting can be determined when the forfaiting agency is approached for a forfait quote. The availability of a forfaiting quote for a particular country will depend on the forfaiting agency's perception of risk quality of export receivables from that country. The forfaiting agency will indicate the maximum amount and the period of discount while giving quote for forfaiting.

In case you desire to forfait your export receivables, please contact Exim Bank with the following details -

- name and address of foreign buyer
- country to which exports are to be made
- name of the guarantor bank (i.e. aval), if known to the exporter
- nature of goods
- order quantity
- amount of order - base price, interest rate
- delivery period and repayment schedule
- name of the authorised dealer who will handle the export transaction for the exporter in India

The above information will enable Exim Bank to establish, prima- facie, eligibility of export receivables for forfaiting.

Should you need any additional Information/clarifications on the forfaiting scheme please contact Exim Bank Headquarters in Mumbai or its offices situated in other Indian Cities.

Forfaiting - Operating Procedure

What will be the operating mechanism for a forfait transaction?

1. Indian exporter initiates negotiations with prospective overseas buyer with regard to order quantity, price, currency of payment, delivery period and credit terms.

2. Exporter approaches Exim Bank to obtain an indicative forfaiting quote from the forfaiting agency. For this purpose, the exporter is required to provide the following information -

- name and address of foreign buyer
- country to which exports are to be made

- name of the guarantor bank (i.e. aval), if known to the exporter
- nature of goods
- order quantity
- amount of order - base price, interest rate
- delivery period and repayment schedule
- name of the authorised dealer who will handle the export transaction for the exporter in India.

3. Exim Bank obtains indicative quotes of discount, commitment fees and documentation fees if any, and communicates these to the exporter.

4. Exporter finalises the terms of the contract with the buyer. The final export offer must be structured in a manner which ensures that the amount received in foreign exchange by the exporter after payment of forfaiting discount and other fees is equivalent to the price which he would obtain if goods were sold on cash payment terms.

5. If the terms are acceptable to the overseas buyer, the Indian exporter informs Exim Bank accordingly and requests the Bank to obtain a firm quote from the forfaiting agency.

6. Exim Bank obtains a firm quote from the forfaiting agency and conveys this information to the exporter and his authorised dealer, with a request to the exporter to confirm acceptance of the forfaiting terms within a specified time limit.

7. Indian exporter confirms acceptance of forfaiting terms to Exim Bank. The exporter will enter into a commercial contract with the overseas buyer and also execute a forfaiting contract with the forfaiting agency through Exim Bank.

8. On execution of the forfaiting contract, Exim Bank issues -

- A certificate to the exporter with a copy to the authorised dealer, regarding the commitment fee to be paid by the exporter to the forfaiting agency. This certificate will enable the exporter to remit commitment fees to the forfaiting agency, in accordance with the schedule indicated in the forfaiting contract. In terms of the Reserve Bank of India guidelines governing forfaiting contracts, commitment fees will be regarded as being analogous to bank charges, and will not be required to be mentioned in the GR form or shipping bill prepared by the exporter, subject to the commitment fee not exceeding 1.5% of the contract value
- A certificate to the exporter detailing the discount payable to the forfaiting agency, to enable the Indian Customs authorities to verify deductions towards forfaiting discounts declared by the exporter on the GR form and shipping bill.

9. The Indian exporter ships the goods as per the schedule agreed with the overseas buyer. The forfaiting transaction will be reflected in the following three documents associated with an export transaction, in the manner suggested below -

- **Invoice:** Forfaiting discount, commitment fees, etc. need not be shown separately; instead, these could be built into the FOB price, stated on the invoice.
- **Shipping Bill and GR form:** Details of the forfaiting costs will be included along with the other details, such as FOB price, commission insurance, normally included in the "Analysis of Export Value" on the Shipping Bill. The claim for duty drawback if any, will be certified only with reference to the FOB value of the exports stated on the shipping bill.

  In case of exports covered under the scheme of Forfaiting, the following procedure should be followed for filling up the various columns relating to the FOB value in the shipping Bill and the GR form :-

  i. the column "Total F.O.B. value in words" will reflect the total invoice value inclusive of the forfaiting discount

ii. Under the column "Analysis of export value," the actual F.O.B. value, exclusive of the forfaiting discount should be indicated against the sub-column "F.O.B. value". The forfaiting discount will however, have to be shown separately under the sub-heading "Other Deductions", on the basis of Exim Bank's certificate which is to be submitted by exporters to the Customs Authorities.

iii. The column "Full export value or where not ascertainable the value which exporter expects to receive on the sale of goods" should indicate the total invoice value, inclusive of the forfaiting discount.

iv. Under the column "Assessable Value under section 14" the actual F.O.B. value, net of the forfaiting discount will have to be shown.

v. On the reverse of the Shipping Bill, the figures to be indicated against the column "Value on which Drawback Claim" should be the F.O.B. value after deduction of the forfaiting discount. This value should match with the value indicated in the column under (ii) above.

These instructions have been communicated to All Collectors of Customs by Ministry of Finance, Department of Revenue in terms of Notification F. No. 605/26/91-DBK dated March 1, 1993.

10. The export contract will provide for the overseas buyer to furnish avalised bills of exchange or avalised promissory notes.

11. If the contract provides for bills of exchange, the exporter will draw a series of bills of exchange and send them along with shipping documents to his banker for presentation to importer for acceptance through latter's banker. Importer's banker will hand over shipping documents to importer against acceptance of bills of exchange by the importer and signature of aval.

Avalised and accepted bills of exchange will be returned to exporter through his banker.

Exporter will endorse avalised bills of exchange with the words "Without Recourse" and forward them through his banker to Exim Bank, which in turn will send them to the forfaiting agency.

12. If promissory notes are provided for in the export contract, then the exporter will require the importer to prepare a series of avalised promissory notes, as agreed.

On shipment, the exporter's bank sends the shipping documents to the importer's bank for transmission to the overseas buyer. Importer's banker will hand over shipping documents to importer against avalised promissory notes issued by the importer.

Avalised and accepted promissory notes will be forwarded to the exporter through his banker.

The Indian exporter endorses the avalised promissory notes with the words "Without Recourse" and forwards them through his bank to Exim Bank, which in turn will send them to the forfaiting agency.

13. The forfaiting agency effects the payment of the discounted value, in accordance with Exim Bank's instructions, after verifying the aval's signature, and other particulars.

Normally, Exim Bank will direct the forfaiter to credit the payment to the nostro account of the exporter's bank in the country where the forfaiter is based. The bank receiving the discounted proceeds will arrange to remit the funds to India. The exporter will be issued a Certificate for Foreign Inward Remittance. The GR form will also be released.

14. An export contract which provides for more than one shipment can also be forfaited under a single forfaiting contract. However, where the export is effected in more than one shipment, avalised promissory notes/bills of exchange in respect of each shipment could be forfaited, subject to the minimum value requirements laid down by the forfaiter.

15. On maturity of the bills of exchange/promissory notes, the forfaiting agency presents the instruments to the aval for payment.

Chapter-14

Lines of Credit

Government of India has been extending lines of credit to the Governments of friendly developing foreign countries for a number of years. These lines of credit are meant for only the Governments of foreign countries and not the private organizations of a particular country, from the Govt. of India. The main objective behind the extension of these lines of credit is two fold; firstly, to promote the export of major goods of Indian manufacture to these countries, and secondly, to achieve the political objective i.e. goodwill of beneficiary countries.

Criteria for GOI (Govt. of India) Credits

Credit worthiness

The recipient country must have a satisfactory credit standing and be able to meet its repayment obligation in hard currency.

Soundness of Project

The applicant for credit must submit contracts with information to establish the technical and economic soundness of the Project. This is necessary to establish its capacity to generate Projects, particularly for repayment of credits.

Indian Content

The financing that India provides is intended to be used only for goods and services to be exported from India and should not be used for local costs in the borrowing countries, nor for third country import.

Prospects for Continuing Trade

The greater the export promotion, the more attractive it is for long term finance. There should be a strong preference for transactions offering continuing trade possibilities on commercial credit terms not requiring continuous commitments of GOI.

New Credit Policy

GOI credits form a small proportion of medium term credit and are motivated largely by political considerations. The credit policy was reviewed in 1994-95 and the following decisions were taken with a view to increasing optimization of the credits:

- Besides capital goods, product coverage was expanded to cover consumer durable, including passenger vehicles and consultancy. There is no fixed ceiling or ratio for these items in relation to the total credit. Eligibility of consultancy for credits was considered with a view to generating Projects and machinery exports from India. Consumer durable provides an opportunity to introduce branded Indian products including white goods and passenger vehicles to potential markets.
- GOI credits are normally confined to low risk countries.
- GOI credits, as a general rule, are denominated in US dollars and carry a uniform rate of interest equivalent to six months LIBOR prevailing on the date of signing of credit agreement.

- All credits normally cover 90% FOB value of the goods and services. The 10% FOB value of goods and services is to be paid by the importers in freely convertible foreign currency at the time of opening of the letters of credit.
- All credits normally have a uniform repayment schedule of 12 years inclusive of 3 years moratorium. However, for consumer durable and consultancy the repayment period is 3 years inclusive of 1 year moratorium.
- An identification of priority sectors for contracting under the credits to be jointly carried out in the light of India's bilateral/global export strategy, promotion of joint ventures, resource base of recipient country and enhancement of its export capabilities.

There have been a few departures from the above mentioned standard terms and conditions. For example, the credit to Vietnam has been extended in Indian Rupee denomination instead of US dollar and on 100% FOB basis instead of 90% FOB basis. Similarly, in case of credit to Laos, the interest rate is 3% per annum instead of fixed LIBOR six months.

Procedure for Disbursement of the Credit

After the signing of the Credit Agreement, Indian exporter enters into a contract with the importer of the recipient country for export of goods and services from India. These contracts are generally finalized through normal tendering process. GOI does not associate itself in the finalization of contracts. Signed contracts are first approved by the Government of the recipient country and then forwarded to the Department of Economic Affairs (DEA) for GOI approval. In DEA each contract is examined for its conformity to the terms and conditions of the credit agreement, price reasonableness, third country import content etc. After each contract has been approved intimation thereof is sent to the recipient country and the State Bank of India, Overseas Branch, New Delhi by this Department. The State Bank of India, Overseas Branch, New Delhi acts as the implementing agency for the GOI.

The procedure for disbursements in respect of contracts to be financed under the credit is as follows:

- The State Bank of India, New Delhi concludes a separate banking arrangement with the bank nominated by the recipient country.
- The State Bank of India, New Delhi maintains account and makes disbursements there from to the exporters in India either directly or through negotiating banks.
- The disbursements from the aforesaid account are made in respect of contracts concluded under the credit agreement. Such contracts should have been entered into after coming into force of the Agreement and should be in respect of items agreed to be financed under the credit.
- All disbursements under the credit are made under Letters of Credit opened by Banks in the recipient country.
- All Letters of Credit should be advised by banks in the recipient country to the State Bank of India, New Delhi for onward transmission to the exporters either direct or through another bank in India, if any, nominated by the exporters. Normal commercial practices followed in respect of advising payments under Letters of Credit is adopted to ensure that the remaining 10% of the amount of the Letter of Credit is received in US Dollars. All claims to the State Bank of India for payment of 90% of the FOB value need to be supported by a certificate of the negotiating bank that the 10% FOB value directly payable has been received.
- The State Bank of India checks the Letters of Credit and contracts as to their eligibility for financing under the credit and if in order forwards the credit with an operative advice either direct to the exporters or to their bankers. A copy of the advice is also endorsed to the Bank of the recipient country.

- The State Bank of India also charges a disbursement charge of 1/10th of 1% when reimbursing claims under the Letters of Credit. This charge together with other charges, such as advising commissions on credits, negotiating charge, out of pocket expenses incurred by the State Bank of India or bank concerned in India, is debited to the aforesaid credit account.
- While claiming reimbursements, the negotiating banks shall certify that the terms of the Letters of Credit under which payments have been made have been complied with; they shall also submit copies of invoices and non-negotiable copies of bills of lading in support of their claims.

General Guidelines on Exim Lines of Credit

Introduction

Exim Bank extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries, to import goods and services from India on deferred credit terms. The Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool.

How does it work?

1. Exim Bank signs LOC Agreement with overseas Borrower Institutions (Borrower) and announces the availability of LOC for utilization, when the Agreement becomes effective.
2. Exporter checks with Exim Bank, available amount under the LOC and quantum of service fee payable to Exim Bank and negotiates contract with Importer.
3. Importer approaches the Borrower for approval of the contract.
4. Borrower appraises the proposal. If satisfied, approves the contract and refers to Exim Bank for concurrence for inclusion of contract for being financed under the LOC.
5. Exim Bank accords approval to the contract, if in conformity with the terms of LOC. Exim Bank conveys contract approval to the exporter and the Borrower.
6. The Importer arranges remittance of advance payment to the Exporter and also opening of a Letter of Credit, which states that the contract is covered under Exim Bank's LOC to the Borrower and reimbursement will be by Exim Bank for the Eligible Value of Credit.
7. Exporter executes the contract/ships the goods/provides services.
8. Commercial bank in India, designated as the Negotiating Bank, negotiates shipping documents and pays the exporter.
9. Exim Bank reimburses the Negotiating Bank, on receipt of valid claim and service fee, by debit to the LOC account of the Borrower.
10. Borrower repays Exim Bank on due dates.

EXIM Bank:LINES OF CREDIT
Procedural Flow-Chart

1. Exim Bank signs agreement with Borrower and announces when effective.
2. Exporter checks procedures and Service fee with Exim Bank and negotiates contract with Importer.
3. Importer consults borrower and signs contract with exporter.
4. Borrower approves contract.
5. Exim Bank approves contract and advises borrower and also exporter and commercial bank.
6. Exporter ships goods.
7. Commercial bank negotiates shipping documents and pays exporter.

8. EXIM Bank reimburses Commercial bank on receipt of claim by debit to borrower.

9. Borrower repays EXIM Bank on due date.

Confirmation of Letters of Credit (L/C) by Exim Bank under the Trade facilitation programme of the European Bank for Reconstruction and Development (EBRD)

Introduction

The programme envisages confirmation of Letters of Credit (L/Cs) received by Indian exporters from pre-approved banks in the countries of EBRD's operations, i.e. the countries of Central and Eastern Europe and the Commonwealth of Independent States (CIS). EBRD will provide guarantee facility to Exim Bank to cover such L/C confirmation.

Features of the Programme

- The programme covers the 27 countries of EBRD's operations listed below and Exim Bank will confirm L/Cs for supporting Indian exports to these countries :

Albania	Georgia	Romania
Armenia	Czech Republic	Russian Federation
Azerbaijan	Hungary	Slovak Republic
Bosnia & Herzegovina	Kazakhstan	Slovenia
Belarus	Kyrgyzstan	Tajikistan
Bulgaria	Latvia	Turkmenistan
Croatia	Lithuania	Ukraine
Estonia,	Moldova	Uzbekistan
FYRMacedonia	Poland	Yugoslavia

(The list of countries is subject to change)

- Exim Bank's L/C confirmation will cover the risk of non-payment by the Issuing Bank.
- **Eligibility Criteria :** The L/C Issuing Bank must be in EBRD's list of pre-approved banks. (List of pre-approved banks can be obtained from Exim Bank's Trade Finance Group). Eligible Goods means export of all types of goods and commodities and related cost of transport and other services to any one of EBRD's countries of operations and not included in EBRD's exclusion list (items in the exclusion list can be obtained from Exim Bank's Trade Finance Group).
- **Pricing :** The fee payable to Exim Bank for adding confirmation to the L/C will be advised by Exim Bank along with the approval for L/C confirmation. The fee will be payable before confirmation of L/C.

How it works

- Under the programme, an importer of Indian goods in any of the above countries will approach a bank for opening an L/C. The L/C issuing bank should be on EBRD's list of pre-approved banks. Either the L/C issuing bank or Indian exporter may request confirmation of the L/C from Exim Bank. For this purpose, application forms are available with Exim Bank. Exporters are welcome to discuss the transaction before sending a formal request for L/C confirmation to Exim Bank.
- Exim Bank will convey approval for confirmation of the L/C and the fee payable by the Indian exporter/L/C issuing bank. L/C will be governed by UCPDC-500.

- L/C issuing bank shall not, without Exim Bank's prior written consent, amend the terms of the L/C.
- Indian exporter will ship the goods covered under the contract and shall present the documents for negotiation to his bank. The negotiating/paying bank will ensure that the documents are as per the terms of the L/C and shall make payment under the L/C to the Indian exporter. The negotiating/paying bank will forward the documents to the L/C issuing bank. Negotiating/paying bank shall keep Exim Bank informed on each disbursement made to the Indian exporter under the L/C and each claim for payment made to the L/C issuing bank and amount received by the negotiating/paying bank from the L/C issuing bank in settlement therefor, till retirement of the L/C.
- In the event the L/C issuing bank fails to reimburse the negotiating/paying bank, Exim Bank will pay the negotiating/paying bank as per the terms of approval for L/C confirmation.

Chapter: 15
Export Incentives

Government of India (GOI) Export Promotion Measures

GOI has been giving several export incentives to Indian exporters to promote exports from the country. Export incentives are given by GOI through several institutions/agencies and under various Acts. Export incentives are primarily given by Ministry of Commerce through its Directorate General of Foreign Trade (DGFT), and through Ministry of Finance.

Within the framework of WTO agreement, most of these incentives/facilities would stand reviewed/revised by the GOI.

Incentives through Directorate General of Foreign Trade (DGFT)

Most of the export incentives are given through DGFT (of the Ministry of Commerce & Industry) under Foreign Trade (Development and Regulation) Act 1992 (effective from 7 August 1992) which also repealed the Imports and Exports Control Act of 1947. The Foreign Trade Act authorises the Central government to issue notifications regarding export and import policy. These are summarised in Export and Import policy document issued every five years and updated every year through the annual amendments. Below is the list of major incentives given by DGFT to exporters:

(a) Export Promotion Capital Goods (EPCG) Scheme:
(b) Duty Exemption/Duty Remission Schemes

(a) EPCG Scheme:

The scheme, first introduced on April 1, 1990 and amended from time to time. The scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned from the date of issuance of licence.

However, in respect of EPCG licences with a duty saved of Rs.100 crore or more, the same export obligation shall be required to be fulfilled over a period of 12 years.

The capital goods shall include spares (including refurbished/ reconditioned spares), jigs, fixtures, dies and moulds. EPCG licence may also be issued for import of components of such capital goods required for assembly or manufacturer of capital goods by the licence holder.

Second hand capital goods without any restriction on age may also be imported under the EPCG scheme.

Spares (including refurbished/ reconditioned spares), tools, spare refractories, catalyst & consumable for the existing plant and machinery imported/to be imported under the Scheme shall also be allowed subject to an export obligation equivalent to 8 times of duty saved to be fulfilled over a period of 8 years reckoned from the date of issuance of licence.

The scheme covers manufacturer exporters with or without supporting manufacturer(s)/ vendor(s), merchant exporters tied to supporting manufacturer(s) and service providers

(b) Duty Exemption/Duty Remission Schemes:

The Duty Exemption Scheme enables duty free import of inputs required for export production. **An Advance Licence is issued under Duty Exemption** Scheme. The Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in the export product. **Duty Remission scheme consist of**

(a) DFRC and (b) DEPB. DFRC permits duty free replenishment of inputs used in the export product. The DEPB scheme allows drawback of import charges on inputs used in the export product.

An **Advance Licence** is issued to allow duty free import of inputs, which are physically incorporated in the export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts etc. which are consumed in the course of their use to obtain the export product, may also be allowed under the scheme. Duty free import of mandatory spares upto 10% of the CIF value of the licence which are required to be exported/ supplied with the resultant product may also be allowed under Advance Licence.

Advance Licences are issued on the basis of the inputs and export items given under SION. However, they can also be issued on the basis of Adhoc norms or self declared norms as per para 4.7 of Handbook (Vo.I). Advance Licence can be issued either to a manufacturer exporter or merchant exporter tied to supporting manufacturer(s):

i) for Physical exports (including exports to SEZ); and/ or

ii) for Intermediate supplies; and /or

iii) to the main contractor for supply of goods to the categories mentioned in paragraph 8.2 (b), (c), (d), (e), (f), (g), (i) and (j) of the Policy;

for import of inputs required in the manufacture of goods. In addition, in respect of supply of goods to specified Projects mentioned in paragraph 8.2 (d), (e), (f), (g) and (j) of the Policy, an Advance Licence can also be availed by the sub-contractor of the main contractor to such Project provided the name of the sub contractor(s) appears in the main contract.

Such licence can also be issued for supplies made to United Nations Organisations or under the Aid Programme of the United Nations or other multilateral agencies and paid for in free foreign exchange

Advance Licence is issued for duty free import of inputs, as defined in paragraph 4.1.3 subject to actual user condition. Such licences are exempted from payment of basic customs duty, additional customs duty, education cess, anti dumping duty and safeguard duty, if any. However, the imports for supplies covered under paragraph 8.2 (h) & (i) will not be exempted from the payment of applicable anti-dumping and safeguard duty, if any.

Advance Licence and/or materials imported thereunder shall not be transferable even after completion of export obligation. However, the licencee will have the option to dispose off the product manufactured out of the duty free inputs once the export obligation is completed.

Advance Licences shall be issued with a positive value addition.

However, for physical exports for which payments are not received in freely convertible currency, the same shall be subject to value addition as specified in Appendix-11 of Handbook (Vol.1).

In case of Tea, the minimum value addition under advance licence shall be 100%.

Advance Licence shall be issued in accordance with the Policy and procedure in force on the date of issue of licence.

The validity period of advance licence for import shall be as prescribed in the Handbook (Vol.1).

The facility of Advance Licence shall also be available where some or all of the inputs are supplied free of cost to the exporter.

In such cases, for calculation of value addition, the notional value of free of cost inputs along with value of other duty-free inputs shall be taken into consideration. However, if all the inputs are supplied free of cost, it shall be covered under paragraph 4.2.7 of the Policy

DGFT currently has three duty exemption/duty remission schemes. These are (i) Advance Licence (ii) Duty Free Replenishment Certificate, and (iii) Duty Exemption Passbook Scheme.

(ii) Duty Free Replenishment Certificate (DFRC):

DFRC is issued to a merchant exporter or manufacturer exporter for the import of inputs used in the manufacture of goods without payment of basic customs duty.

However, such inputs shall be subject to the payment of additional customs duty equal to the excise duty at the time of import

DFRC shall be issued on minimum value addition of 25% except for items in gems and jewellery sector for which value addition as given in paragraph 4A.2.1 of the Handbook (Vol.1) shall be applicable.

DFRC may be issued for physical exports against freely convertible currency / supplies effected under paragraph 8.2 of the Policy (except for supplies made to DFRC holder). DFRC may also be issued in respect of exports (including supplies to SEZ) for which payments are received in non-convertible currency. Such exports shall, however, be subject to value addition and conditions as specified in Appendix-11 of Handbook (Vol.1)

DFRC shall be issued only in respect of products covered under the Standard Input Output Norms as notified by DGFT.

However, in respect of Standard Input Output Norms which are subject to "actual user" condition or where the export proceeds have not been realised at the time of filing application or for import of fuel under the general norms, DFRC shall be issued with actual user condition for these inputs.

However, for fuel, the import entitlement may be transferred only to the companies which have been granted authorization to market fuel by the Ministry of Petroleum & Natural Gas.

In cases where Standard Input Output Norms allow import of Acetic Anhydride, Ephedrine and Pseudo Ephedrine, DFRC shall be issued provided these items are specifically deleted from the list of import items.

DFRC will not be issued against SION which prescribe a prior import condition for inputs.

DFRC shall be issued for import of inputs as per SION as indicated in the shipping bills. The validity of such licences will be governed by the provision stipulated in the handbook (Vol. I). DFRC and or the material(s) imported against it shall be freely transferable. However, DFRC with actual user condition or the material(s) imported against it shall not be transferable.

The export products, which are eligible for modified VAT, shall be eligible for CENVAT credit/ service tax credit.

However, non excisable, non dutiable or non CENVAT products, shall be eligible for drawback at the time of exports in lieu of additional customs duty to be paid at the time of imports under the scheme.

The exporter shall be entitled for drawback benefits in respect of any of the duty paid materials, whether imported or indigenous, used in the export product as per the drawback rate fixed by Directorate of Drawback (Ministry of Finance).

The drawback shall however be restricted to the duty paid materials not covered under SION.

(iii) Duty Entitlement Passbook Scheme (DEPB):

The objective of DEPB is to neutralise the incidence of Customs duty on the import content of the export product. The neutralisation shall be provided by way of grant of duty credit against the export product.

The DEPB scheme will continue to be operative until it is replaced by a new scheme which will be drawn up in consultation with exporters .

Under the DEPB scheme, an exporter may apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency.

The credit shall be available against such export products and at such rates as may be specified by the Director General of Foreign Trade by way of public notice issued in this behalf, for import of raw materials, intermediates, components, parts, packaging material etc.

The holder of DEPB shall have the option to pay additional customs duty, if any, in cash as well.

B. Incentives through Ministry of Finance (MOF)

a. Duty Drawback Scheme:

Exporters or processors, who are unable to avail of various schemes like EOUs/EPZs or to obtain refund of duties paid on inputs, can avail duty drawback. Under Duty Drawback excise duty and customs duty paid on inputs is refunded to the exporter of finished products. Section 75 of the Customs Act (CA) 1962 allows for the reimbursement to exporters of the duties of Customs and Central excise borne by imported and indigenous raw materials used in the production of exports. State levies and octroi, however, are not included in this. The Central

Board of Excise and Customs administers the Duty Drawback Scheme under Section 75 of the CA, 1962 and Section 37 of the Central Excise and Salt Act, 1944. Under these Acts, Central government has made "Customs and Central Excise Duties Drawback Rules, 1995" have been made. Duty Drawbacks are made on the basis of either All Industry Rates or Brand Rates.

All Industry rates are fixed for broad categories of products and these rates represent average incidence of duty*. These rates are revised annually after taking into account the changes made in the budget and the data furnished by Export Promotion Councils. These rates are standard rates revised every year 90 days after (i.e., June 1st) the general budget is announced which is normally on February 28.

Brand Rate of Drawback is determined on the actual input utilisation basis depending on the data furnished by an exporter manufacturer (and not on the basis of SION) and its verification. These rates are decided on a case by case basis and are therefore exporter-and-shipment specific. The brand rates are fixed for products for which there are no industry rates or for which the All Industry Rates provides substantially lower benefits than actual incidence of duty.

Chapter 16

Marketing Development Assistance Scheme of the Ministry of Commerce & Industry:

(REVISED GUIDELINES W.E.F. 01.04.2006)

Export promotion continues to be a major thrust area for the Government. In view of the prevailing macro economic situation with emphasis on exports and to facilitate various measures being undertaken to stimulate and diversify the country's export trade, Marketing Development Assistance (MDA) Scheme is under operation through the Department of Commerce to support the under mentioned activities:

(i) Assist exporters for export promotion activities abroad

(ii) Assist Export Promotion Councils (EPCs) to undertake export promotion activities for their product(s) and commodities

(iii) Assist approved organizations/trade bodies in undertaking exclusive nonrecurring innovative activities connected with export promotion efforts for their members

(iv) Assist Focus export promotion programmes in specific regions abroad like FOCUS (LAC), Focus (Africa), Focus (CIS) and Focus (ASEAN + 2) programmes.

(v) Residual essential activities connected with marketing promotion efforts abroad.

2. Administration of the Scheme

(i) The utilization of scheme is administered by the E&MDA Division in the Department of Commerce, Government of India, Udyog Bhavan, New Delhi – 110 011. Recognized EPCs on product grouping basis, Commodity Boards and Export Development Authorities are eligible for MDA assistance for development and promotional activities to promote exports of their products and commodities from India.

(ii) MDA budget allocation to recognized EPCs and other export promotion organizations for export promotion activities including specific special development and promotional Projects are finalized in annual meetings with the respective EPCs, which are chaired, by the Additional Secretary and Financial Advisor (AS&FA), Department of Commerce. Proposals for adhoc grants for exclusive innovative export promotional activities, which are considered helpful to promote exports of Indian products and commodities are examined by the E&MDA Division and decided with the approval of the AS&FA.

(iii) Proposals of individual exporters for eligible MDA supported activities like participation in EPC led Trade Delegations/BSMs/Trade Fairs/Exhibitions for reimbursement of MDA assistance will be considered and approved by the Chief Executive Officer of the Export Promotion Councils/FIEO etc.

The approved claims shall be then disbursed by the concerned organization out of the funds allocated to them for this purpose. A monthly utilization report duly signed by the Chief executive Officer of the concerned organization shall be sent to the E&MDA Division in Department of Commerce. A copy of the report shall also be sent electronically at moc_mda@nic.in by the 7th day of every month. The names of beneficiaries giving details viz. Name of the participant, Name of the company represented, fair attended, amount disbursed etc. shall also be hosted on the respective website by the concerned organisation,

The MDA Committee in the Dept. of Commerce shall test check 10% of the cases approved by the EPCs etc. through a random selection method, based on the monthly progress reports to be send by the EPCs.

3. Assistance to individual exporters for export promotion activities abroad – Participation in EPC etc. led Trade Delegations/BSMs/Trade Fairs/ Exhibitions:

(i) Exporting companies with an f.o.b. value of exports of upto **Rs. 15 crore** in the preceding year will be eligible for MDA assistance for participation in trade delegations/BSMs/fairs/exhibitions abroad to explore new markets for export of their specific product(s) and commodities from India in the initial phase. This will be subject to the condition that the exporter is having complete 12 months membership with concerned EPC etc. and filing of returns with concerned EPC/organisation regularly. **However, this condition would not apply in case of a new EPC for a period of 5 years from the date of its creation.**

(ii)Assistance would be permissible on travel expenses by air, in economy excursion class fair and/or charges of the built up furnished stall. This would, however, be subject to an upper ceiling mentioned in the table per tour.

S No. (1)	Area/Sector (2)	No. of visits (3)	Maximum Financial ceiling per event (4)
1.	Focus LAC	1	Rs. 1,80,000
2.	FOCUS AFRICA (including WANA Countri	1	Rs. 1,50,000
3.	FOCUS CIS	1	Rs. 1,50,000
4.	FOCUS ASEAN+2	1	Rs. 1,50,000
5.	General Areas	1	Rs. 80,000*
	TOTAL	5	General Areas

The participation of individual companies in the above activities shall be subject to the following conditions:
(1) For EPC etc. led Trade Delegations/BSMs only air-fare by Economy Excursion class upto a maximum of **Rs. 70,000 (Rs. 1,00,000 in case of Focus LAC**) shall be permissible. For participation in Trade Fairs/Exhibitions reimbursement shall be permissible subject to ceilings mentioned in the column 4 in the above table.

(2) Maximum number of permissible participations shall be five in a financial year as indicated in above table (No travel grant is permissible for visit to General Areas).

However, for priority sectors, having large employment generation potential, viz. Agriculture including food items, Handicrafts, Handlooms, Carpets, Leather & Minor Forest Produce including LAC, 2 (two) participations in General Areas would be admissible with the assistance of Rs. 1,50,000 for each participation. The exporters availing of assistance under this provision would, however, be in addition to these participations, eligible for only any 2 Focus Area participations.

(3) Assistance shall be permissible to one regular employee/director/ partner/proprietor of the company. Assistance would not be available to exporter of foreign nationality or holding foreign passport.

(4) Intimation application must be received in the concerned EPC etc. with a minimum of 14 days clear advance notice excluding the date of receipt of application in the office of the concerned organization and the date of departure from the country.

(5) The company shall not be under investigation/charged/prosecuted/ debarred/black listed under the Foreign Trade Policy of India or any other law relating to export and import business.

(6) Member exporters of EPCs etc. would also be eligible for MDA assistance for participation in events organized by ITPO abroad. Their applications / claims would by routed/reimbursed through concerned EPC etc.

(7) Maximum MDA assistance shall be inclusive of MDA assistance received from all Govt. bodies/FIEO/EPCs/Commodity Boards/Export Development Authorities/ITPO etc.,

(8) A Maximum of three participations in a particular trade fair/exhibition would be eligible for MDA assistance and exporting companies after availing assistance three times including past cases for a particular fair/exhibition, have to participate in that fair, if any, on self-financing basis.

Note:

(1) Expenses relating to stay, per diem allowance, local travel etc. of Council's official etc. for activities within India are to be met by the EPCs etc.

(2) MDA grant required for exporters accompanying the EPCs etc. led delegation/Trade fair/Exhibition is required to be shown along with Budget of each Activity in the Annual Action Plan.
(3) In case where the activities are planned as a part of the "Made in India" Trade Promotion initiative of the Department of Commerce, Government of India, the scale of assistance may be increased upto 90% of the venue cost and organizing expenditure.

4. Focus Area Programmes:

At present 4 Focus Area programmes viz. Focus (LAC), Focus (Africa), Focus (CIS) and Focus (ASEAN+2) are under operation in the Department. In addition to activities in non focus areas, special provision has been made under Reverse Trade Visits for visit of prominent delegates and buyers (one person from each organization) from these Focus Area Regions for participation in buyer cum seller meets, exhibitions etc. in India. The foreign delegates/buyers/journalists would be assisted in meeting their return air travel expenses in economy excursion class upto the entry point in India. This would, however, be subject to financing only the well planned participations wherein the potential of the incoming delegate(s)/buyer(s)/journalist(s) have been screened by the concerned EPC and Territorial Division. The following activities are eligible to be undertaken under Focus Area Programmes:

FOR ACTIVITIES UNDER THE FOCUS-AREA PROGRAMMES

S.No.	Permissible Items of expenditure under MDA	Percentage of funding under MDA
1.	(i) Participation in International Fairs/exhibitions organised by EPCs etc. (ii) Sponsoring BSMs/Trade delegations abroad by EPCs etc.	As applicable in non-focus area with ceiling of Rs.15 lakh.
2.	Reverse Trade visits of prominent foreign buyer/ delegates/journalists to India for participation in BSMs/ exhibitions etc.: (i) Return air-fare travel expenses in economy excursion class upto the entry point in India **and hotel charges etc.** (ii) Venue charges **(i)** All other organizing expenditure. **All other expenses relating to stay, per diem allowance, local travel etc. of delegates invited from abroad are to be met by the EPC or by sharing between the organizers and delegates.**	(i) 100% (subject to a ceiling of Rs.1,00,000/- for LAC and Rs.70,000/- for other Focus areas) (ii)&(iii) As applicable in non-focus area with ceiling of Rs. 15 lakh
3.	Translation facilities in foreign languages and vice versa	**60%**
4.	**Product catalogue in CD ROM**	**60%**

5. Participation/organisation of export promotional activities shall be subject to the following conditions:

(i) The exporters participating in EPC sponsored trade delegations and fairs/exhibitions/buyer cum seller meets etc. abroad shall receive the MDA assistance on reimbursement basis on scales.

(ii) One official of the EPC (subject to an upper ceiling of two visits in one financial year by individual official) can accompany EPC sponsored trade delegation/organized participation in trade fair/exhibition followed by BSM. This would, however, be subject to the condition that a **minimum of five exporters participates in such events except in case of established trade fairs where this condition shall not apply for two such fairs in a financial year with the prior approval of the Joint Secretary of the concerned commodity/territorial division** . In rare circumstances, the Joint Secretary of the concerned commodity/territorial division can **also** relax the condition of a maximum of two visits by an individual official in a financial year. **However, in case the number of participants for a particular event goes beyond 20 (Twenty), MDA assistance for one additional official of the EPC for every block of 20 participants shall be permitted.**

(iii) Per diem allowance, hotel charges etc. would not be permissible from MDA funds to exporters/elected office bearers of the EPCs etc. traveling abroad.

(iv) MDA assistance shall be limited to 60% of the total approved cost (**upto 90% in case of 'Made in India' shows)** and the remaining has to be met by the EPCs from the contributions from participants, members, trade etc.

(v) For 'Reverse Trade Visits' the air-fare by economy excursion class for invited delegates would be subject to the upper ceilings of Rs.100,000/-for LAC region and Rs.70,000/- for CIS, Africa and ASEAN+2 regions.

6. Approved organisation(s)/trade bodies

(a) Approved organization/trade body means an organization, institution or association engaged in development and promotion of exports and approved by the E&MDA Division in the Department of commerce for this purpose. These Organizations can organize programme/activity for specific purpose of development and promotion of exports of Indian products and commodities with the prior approval of the Government (E&MDA Division in the Department of Commerce) for its members.

These are of following two types:

(i) Approved organizations who can sponsor MDA proposals of its member exporters:-
No MDA grant on annual basis would be given to these organizations for their export promotion activities. However, organizations can sponsor requests of their member exporters for participation in fairs/exhibitions/BSMs/Trade delegations led by these organizations for MDA assistance.

(ii) **Other approved trade bodies**
These organizations cannot sponsor proposals of their member exporters for MDA assistance. However, with the prior approval of the E&MDA Division of the Department of Commerce, their proposals for organizing non-recurring specific promotional activity for export growth of Indian Products and Commodities abroad can be considered for MDA assistance.

Any other organization, institution or association desirous of getting itself registered as an approved organization, may apply to the Department of Commerce (E&MDA Division) with full particulars in the prescribed proforma (-IV).

DOCUMENTATION FOR REIMBURSEMENT OF ASSISTANCE TO EXPORTERS:

(i) Intimation application in II duly completed and signed shall be submitted by the exporter to the concerned EPC etc. giving clear 14 days advance notice. Intimation and the application must be sent electronically by email also.

(ii) **Concerned Organization (FIEO, EPC etc.) on receipt of intimation shall immediately issue acknowledge receipt.** Thereafter they will examine and issue approval letter to the exporter preferable within 5 working days of the receipt of the intimation, in the prescribed format.

(iii) Claim along with the declaration duly completed **and the Certificate (as per Annexure III) duly signed by a Chartered Accountant** shall be submitted by the exporter to the concerned Organization (FIEO), EPC etc.) in the prescribed format along with under mentioned papers immediately on return to India after completion of the activity but positively within 45 days of their return to India:

- Details of activity undertaken earlier with MDA assistance to the same country/countries.
- Legible photocopy of passport highlighting the entries about departure from and arrival into India and also the countries visited. In case, passport does not have arrival/departure dates regarding visits to various countries, some documentary evidence such as Hotel Bills, Boarding pass, lodging pass etc. be submitted.
- ginal air ticket/jacket used during the journey. If Original air ticket/jacket is lost, a legible photocopy of the same along with a certificate from the concerned airline indicating following may be sent:

a) Name of the traveler
b) Ticket number
c) Flight No.
d) Date of departure from India
e) Sectors/countries visited
f) Class in which traveled
g) Economy excursion class fare for sectors/countries visited.
h) Self certified f.o.b. value export figures during the last three financial years, year wise.
i) Brief report about the activity participated and achievements made.

(iv) **Claim forms duly filled in and complete in all respects must be submitted to the concerned EPC, FIEO etc., within 90 days of return to India. However, claims submitted within 30 days from the expiry of the 90 days period may be entertained by or wherein the deficiencies in the claim as intimated by the concerned EPC, FIEO etc., with 10% deduction. The claims which are submitted after 120 days of return to India shall not be entertained under any circumstances. Any deficiencies in the claim as intimated by the concerned EPC, FIEO etc., must be completed within 30 days of the date of directions given in this regard failing which the claim shall stand rejected without any further intimation or reminder in this regard by the concerned EPC, FIEO etc. .**

Annexure-I

Application Form For Marketing Development Assistance
For participation in Trade Fair/Exhibition/BSM/Trade delegation abroad

Ref.No.________________ Date:________________

01. Name of the firm with full address.

IEC No.__________________

02. EH/TH Certificate No. & Date _____________________

Valid upto______________

03. FOB value of exports during the last **Financial year (Rs.in crores)**

04. Particulars of fair/exhibition/BSM/ **Trade Delegation**

    Name of event:

Place:
Country:
From………………To……………..

05. Particulars of visit Date of departure from India

Date of arrival in India

06. Details of proposal(s) already **Submitted in the same financial year.**

07. Details of earlier participations in the same event with MDA assistance.

08. Name and designation of the person **going abroad**

Place:

Date: Signature:

Annexure-II

Claim Form for Marketing Development Assistance For Participation in Trade fairs/Exhibitions/BSM/Trade Delegation abroad

***Ref. No.*____________**

Date: _____________

01 Name of the firm with full address
IEC No.______________
02 Approval letter No. and date
03 F.O.B. value of exports during the last financial year.
Rs. in crores
04 Particulars of event Name:
City :
Country
Duration of fair from ________To________

05 Date of actual departure from India.
(please attach self certified photocopy of
passport duly highlighting date ofdeparture).

06 Date of actual arrival from India.
(please attach self certified photocopy of
passport duly highlighting date of arrival).

07 Name & Designation of person who attended the event.

08 No. of proposals already submitted in the same financial year.

09 Details of participations made with MDA assistance in the past in the same event.

10 Whether assistance availed from other Govt. Bodies/EPCs/Commodity Boards/APEDA/MPEDA/ITPO etc. for the activity under reference?
Yes/No. (If yes, please give full details)

11 Expenditure incurred
a) Actual return airfare by economy excursion class

Rs__________

b) Actual expenditure incurred on stall, decoration, water & electricity charges.

Rs__________

(Please attach original air ticket/jacket used during the journey along with self certified photocopies of receipt, bank advice etc. evidencing payment made)

***12 Amount claimed Rs*___________**

Undertaking and Declaration

I/We hereby solemnly undertake/declare that the particulars stated above are true and correct to the best of my/our knowledge and belief.

No other application for claiming assistance for this participation and/or travel cost has been made or will be made in future against purchase covered by the application.

Any information, if found to be incorrect, wrong or misleading, will render/us liable to rejection of our claim without prejudice to any other action that may be taken against us in this behalf.

If as a result of scrutiny any excess payment is found to have been made to me/us, the same may be adjusted against any of the subsequent claims to be made by my/our firm or in the event no claim is preferred, the amount overpaid will be refunded by me/us to the extent of the excess amount paid.

Signature :
Name in Block Letters :
Designation :
Name of the Applicant Firm :
Company Seal :

Place:
Date:

ANNEXURE III

CHARTERED ACCOUNTANT CERTIFICATE

I/We hereby confirm that I/We have examined the claim papers,, books of account and the prescribed documents in respect of the claim of M/s. and hereby certify that:

(i) The participant is regular employee/director/ partner/proprietor of the company
(ii) Participation is as per the maximum permissible participations under the MDA Scheme.
(iii) Minimum of 14 days clear advance notice had been given to the concerned EPC/Trade Body .
(iv) The participant company/firm/concern is not under investigation/charged/prosecuted/ debarred/black listed under Foreign Trade (Development & Regulation) Act, 1992 , FEMA, Customs Act 1962
(v) The total number of participations in this particular trade fair/exhibition is not exceeding three.
(vi) The date of return to India is within 45/90 days of the date of making this application.
(vii) The f.o.b. value export figures during the last financial year is less than Rs. 15 Crores.
(viii) It has been ensured that the information furnished is true and correct in all respects, no part is false or misleading and no relevant information has been concealed or withheld.

Neither I/We nor any of our partners is a partner/Director or an employee of the above named entity or its associated concerns.
I fully understand that any submission made in this certificate if proved incorrect or false, will render me/us liable to face any penal action or other consequences as may be prescribed in the law or otherwise warranted.

Signature & Stamp/seal of the Signatory___________
Name_______________________________________
Membership No._____________________________
Full address__________________________________

Name and address of the Institution where registered.
Date:
Place:

Chapter-17

Scheme for Marketing Development Assistance for SSI Exporters (SSI-MDA)

1. Existing Scheme

A Market Development Assistance Scheme is currently operated by the Ministry of Commerce & Industry with a view to encourage exporters (including SSI exporters) to access and develop overseas markets. The scheme offers funding for participation in international fairs, study tours abroad, trade delegations, publicity, etc. Direct assistance under MDA for small scale units is given for individual sales-cum-study tours, participation in fairs/exhibitions and publicity. SIDBI operates a scheme of direct assistance for financing activities relating to marketing of SSI products.

The Office of DC(SSI) has an existing scheme for participation in international fairs, whereby SSI entrepreneurs are encouraged to display their products at international exhibitions abroad. SIDO provides exhibition space and shipment of exhibits ex-Mumbai free of cost for this purpose.

2. Proposed Scheme

As part of the comprehensive policy package for promotion and development of SSIs announced on 30th August 2000, it was decided that the Small Industries Development Oganisation should have a Market Development Assistance (MDA) scheme similar to the one obtaining in the Ministry of Commerce & Industry. It should be a Plan Scheme.

In pursuance of the above announcement and in recognition of the fact that (i) SSI exporters need to be encouraged in their efforts at tapping and developing overseas markets; and (ii) SIDO's participation in international fairs, if coupled with the presence of actual exporters, would lead to substantial increase in export business, it has been decided to operate a new scheme called SSI Exporters Market Development Assistance (SSI-MDA) Scheme.

The scheme to be operated in addition to the existing SIDO scheme for participation in international fairs will cover all activities for which direct assistance is given under the existing MDA scheme of the Ministry of Commerce & Industry. In addition, the scheme would also provide for financial assistance for commissioning market study reports and for initiating/contesting anti-dumping cases.

3. Individual Assistance

Assistance to individual exporters would be made available by way of reimbursement of to & fro air fare within permissible limits. Registered SSI units seeking such assistance may approach the Office of DC(SSI) through FIEO/EPCs/SSI associations. Other parameters such as eligibility for assistance, activities eligible for financing, permissible funding limits and other conditions are indicated below.

(A) Exporters eligible for assistance:

- (i) Exporting unit must be registered as SSI / SSSBE.
- (ii) Exporting unit must be a member of FIEO / EPC.
- (iii) Exporting units with aggregate exports of Rs. 2 crores and above over the last three financial years (Rs. 1 crore for ISO 9000 certified exporters) are eligible for assistance from the Ministry of Commerce & Industry through EPCs/other grantee organisations. SSI units with aggregate exports less than this limit would now be eligible for direct assistance from the Office of DC(SSI) under this scheme. SSI units which have not yet commenced exports are not eligible for assistance.

(iv) An exporting unit would be eligible for assistance under SSI-MDA only once in a financial year.

(B) Activities eligible for financing

(i) Individual participation in overseas fairs/exhibitions.

(ii) Individual overseas study tours/as member of a trade delegation going abroad.

(iii) Production of material for overseas publicity.

(C) Permissible binding limits:

(i) 90% of cost of return ticket by economy class subject to an upper ceiling of Rs.60,000/- (Rs. 90,000/- for Latin American countries). In case excursion fare is cheaper than economy class fare, the excursion fare will be considered.

(ii) 25% of the cost of production of publicity material limited to Rs.15,000/- in a financial year.

(D) Other conditions:

(i) Assistance shall be available for travel by one permanent employee/director/partner/proprietor of the SSI unit in economy class by Air India. Air travel by airlines other than Air India would be permissible provided that their economy class airfare is not higher than Air India.

(ii) Applications (Form-1) must reach the Office of the DC(SSI) at least one month before the start of the event in question.

(iii) The SSI unit should not have been charged/prosecuted/debarred/ blacklisted under the export and import policy or any other law relating to export and import business.

(iv) Total MDA assistance under SSI-M[DA scheme shall be inclusive of MDA assistance ; received from all Government Bodies/FIEO/EPCs/Commodity Boards/Grantee Organiations etc.

(E) For publicity, advertisement etc.

(i) Application for assistance (Form-IV] must reach the Office of DC(SSI) at least one month before the date of printings of publicity material, along with a dummy copy of the proposed publicity material.

(ii) If printing is involved, quotations from at least three printers are to be obtained. The grant will, however, be allowed against the lowest quotation only, subject to the overall ceiling specified earlier. Printing must be done domestically.

(iv) The SSI unit should not have been charged/prosecuted/debarred/ blacklisted under the Export and Import policy or any other law relating to export and import business.

(v) Total MDA assistance under SSI-MDA for this activity shall be inclusive of MDA assistance received from all Government Bodies/EPCs/ Commodity Boards/ Authorities etc. for publicity abroad in a financial year.

(F) Procedure for availing assistance:

(i) As mentioned above, the application for assistance must reach the Office of DC(SSI) at least one month in advance. The application must be accompanied by:

(a) Copy of SSI registration issued by concerned GM(DIC)/Director of Industries.

(b) Evidence of membership of FIEO/EPC.

(c) CA’s certificate in respect of FOB value of aggregate exports of last 3 years.

(d) Certificate from FIEO/concerned EPC that the unit in question is not availing MDA grant from FIEO/EPC for the event/activity in question.

(ii) Applications received within the prescribed time period shall be considered by the SSI-MDA Committee. If the case is approved, an in-principle letter would be issued to the exporting unit.

(iii) On completion of the event, the exporting unit must submit a claim for payment in the prescribed form (form-II), enclosing the following:

(a) Pre-receipt (Form-III).

(b) Photocopy of passport indicating therein entries regarding departure from and arrival in India and also the country/countries visited.

(c) Original air ticket used during the journey. In case original air ticket is lost, a photocopy of the same, along with a certificate indicating details of travel from the concerned airline, may be furnished.

(d) Report on participation and business generated, including confirmed orders obtained etc.

(iv) Claim form must be submitted within three months of return to India on completion of activity.

In respect of claims regarding publicity (Form-V), a copy of the publication must be submitted along with bill for payment and pre-receipt. In addition, a copy of the payment receipt from the vendor/publishing agency must also be furnished.

A checklist of documents required to be submitted in each case may be seen at Annexure-A

4. Sector-specific Market Studies

Financial assistance for the conduct of market studies would be available for industry associations/EPCs/FIEO. These should be sector specific and in respect of those sectors where SSIs have a significant presence. This will include studies commissioned by industry associations to assess impact of WTO agreements on a specific sector. The Office of DC(SSI) may also commission such studies independently under this scheme. Assistance for commissioned studies would be limited to an overall ceiling of Rs.2 lakhs per study.

5. Anti-dumping Cases

With the opening up of the economy, the use of unfair trade practices has come into sharper focus. Establishing the use of unfair trade practices such as dumping requires much groundwork. Assistance for initiating/contesting anti-dumping cases will therefore be made available to SSI associations. Such assistance would be limited to 50% of total cost involved or Rs. 1 lakh whichever is lower.

Proposals in respect of market assistance /sector studies and for anti-dumping cases must be self-contained and should include details of activities proposed to be undertaken, breakup of costs in respect of each activity, bio-data of professionals proposed to be engaged and duration of time required for completion.

6. Implementation of the Scheme

The scheme shall be implemented by the Export Promotion and Marketing Division of the Office of DC(SSI). Application forms are enclosed with these guidelines and are also available at SIDO's website at www.smallindustryindia.com. At the start of each financial year, the Office of DC(SSI) shall hold a joint meeting with NSIC, SIDBI and the Ministry of Commerce & Industry to ensure that no duplication of funding or overlap occurs in the implementation of the scheme. The SSI MDA Committee shall also identify thrust commodities and thrust regions to be focused on during the year.

7. SSI - MDA Committee

Applications received in respect of each fair/event will be placed before the SSI – MDA Committee which shall meet at least a week to ten days before the start of the fair/event. The Committee shall be headed by the Development Commissioner (SSI) and shall include as its other members a representative from FIEO, a representative from the IF Wing attached to the Ministry of SSI&ARI, Director (Board & Policy), JDC (WTO) and JDC (EP&M) in the Office of the DC(SSI). Director (EP&M) in the Office of the DC(SSI) shall be the Member Secretary.

ANNEXURE-A

Check List of Documents to be enclosed with Application Form and Claim Form

FORM-1 Application form for participation in fair/study tours/trade delegation

- Copy of SSI registration certificate.
- Proof of FIEO/EEPC membership.
- CA's certificate for FOB exports over last 3 years.
- A certificate/communication from concerned EPC/FIEO that the SSI unit will not be availing any assistance for this activity from the EPC/FIEO.
- Literature on the fair/event (if available).

FORM-II Claim form for participation in fair/study tour

- Pre-receipt (Form-III).
- Photocopy of passport showing departure from India and return to India, visa, country/countries visited.
- Original air ticket.
- Report on participation etc.

FORM-III Pre-receipt

FORM-1V Application form for assistance for publicity

- Copy of SSI registration certificate.
- Proof of FIEO/EPC membership.
- CA's certificate for FOB exports over last 3 years.
- A certificate/communication from concerned EPC/FIEO that the SSI unit will not be availing any assistance for this activity from the EPC/FIEO.
- Dummy copy of publicity material.
- Quotations from 3 printers.

FORM-V Claim form for publicity

- Pre-receipt (Form-III)
- Actual copy of publicity material.
- Copy of payment voucher/receipt from vendor/printer.

FORM-I

Application Form for Participation In Fair/Study Tour/Trade Delegation

1. Name of the SSI unit with full address and e-mail ID (if any). ____________________
2. Name & designation of person going for the trip. ____________________
3. SSI registration no. with date and place of issue (copy of registration certificate to be enclosed). ____________________
4. Membership number of FIEO/EPC (enclose proof of membership). ____________________
5. Value of exports during last 3 years at FOB (CA's certificate to be enclosed. ____________________
6. Details of fair/study tour/trade delegation. ____________________
7. Details of visit indicating date of proposed departure, date of anticipated arrival and countries to be visited. ____________________
8. If proposal is in respect of a fair, whether participation is in association with SIDO. ____________________
9. Whether the SSI unit has been charged / Prosecuted / debarred/blacklisted/under investigation under Exim Policy or any other law relating to export import business. ____________________
10. Whether any MDA assistance has been availed from any source for similar activity in this financial year. ____________________

Date:

Signature

Name & Designation

Encl:

FORM-II

Claim Form for Participation In Fair/Study Tour/ Trade Delegation

1. Name of the SSI unit with full address and e-mail ID (if any). ____________________
2. In principle approval letter number and date. ____________________
3. Name & designation of person who participated. ____________________
4. Detail of travel including date of departure from India and arrival in India (copy of passport to be attached) ____________________
5. Name of airline by which journey was made and actual expenditure incurred on return airfare (original air ticket to be enclosed) ____________________
6. Whether the SSI unit has been charged prosecuted / debarred/blacklisted/under investigation under Exim Policy or any other law relating to export import business. ____________________
7. Whether any MDA assistance has been availed from any source for similar activity in this financial year. ____________________
8. Amount claimed for reimbursement ____________________

Declaration:

I declare that the particulars given in the above statement are correct. I also undertake that any financial assistance granted to me/my unit on the basis of this declaration shall be liable to be refunded to the Government if at any time any information furnished in this application is found to be wrong or incorrect or misleading and I do hereby bind myself and my unit to pay the Government on demand a sum equal to the amount claimed as SSI-MDA in respect of above mentioned activity, within seven days of the demand being made to me in writing.

Date: Signature

Name & Designation

Encl:

FORM-III

Pre - Receipt

Received with thanks a sum of Rs. ____

Rupees

____

from the Development Commissioner (SSI), being the SSI-MDA grant towards (give the name of the activity with date)

____

sanctioned vide letter No.______________________________ dated____________________

and paid vide Cheque No. * ____________________________ dated____________________

Date:

Signature

Name & Designation
(with office seal)

*Details of cheque will be filled in by the Office of DC (SSI)

FORM-IV

Application Form for Assistance for Publicity

1. Name of the SSI unit with full address and e-mail ID (if any). ____________________
2. SSI registration number indicating place of issue (copy of registration certificate to be enclosed) ____________________
3. Membership number of FIEO/EPC (enclose proof of membership). ____________________
4. Value of exports during last 3 years at FOB (CA's certificate to be enclosed. ____________________
5. Title of publicity material proposed to be published (Dummy copy to be enclosed). ____________________
6. Name and details of file event where publicity material is proposed to be distributed. ____________________
7. Anticipated date of release. ____________________
8. Number of copies of the publicity material to be printed (enclose detailed quotations from printers for production). ____________________
9. Total estimated expenditure ____________________
10. Whether the SSI unit has been charged / prosecuted / debarred/black listed/under investigation under Exim Policy or any other law relating to export import business. ____________________
11. Whether any MDA assistance has been availed from any source for similar activity in this financial year. ____________________

Date: Signature

Name & Designation

Encl:

FORM-V

Claim Form for Financial Assistance for Publicity Abroad

1. Name of the SSI unit with full address and e-mail ID (if any). ______________________
2. In principal approval letter number and date. ______________________
3. Details of the event where publicity material was released, along with dates (Actual copy of publicity material to be enclosed). ______________________
4. No. of copies of publicity material prepared. ______________________
5. Total expenditure incurred (Attach copy of payment voucher/receipt) ______________________
6. Total amount claimed. ______________________
7. Whether the SSI unit has been charged / prosecuted / debarred/blacklisted/under investigation under Exim Policy or any other law relating to export import business. ______________________
8. Whether any MDA assistance has been availed from any source for similar activity in this financial year. ______________________

Declaration:

I declare that the particulars given in the above statement are correct. I also undertake that any financial assistance granted to me/my unit on the basis of this declaration shall be liable to be refunded to the Government if at any time any information furnished in this application is found to be wrong or incorrect or misleading and I do hereby bind myself and my unit to pay the Government on demand a sum equal to the amount claimed as SSI-MDA in respect of above mentioned activity, within seven days of the demand being made to me in writing.

Date: Signature

Name & Designation

Encl:

CHAPTER 18

MARKET ACCESS INITIATIVE (MAI) SCHEME

1. MARKET ACCESS INITIATIVE (MAI) SCHEME

Market Access Initiative (MAI) Scheme is an Export Promotion Scheme envisaged to act as a catalyst to promote India's exports on a sustained basis, during the 10th five year Plan. The scheme is formulated on focus product- focus country approach to evolve specific strategy for specific market and specific product through market studies/survey. Assistance would be provide to Export Promotion Organizations/ Trade Promotion Organizations / Exporters etc. for enhancement of export through accessing new markets or through increasing the share in the existing markets. Under the Scheme the level of assistance for each eligible activities has been fixed.

2. Scope

The following activities will be eligible for financial assistance under the Scheme :

- To identify the priorities of research relevant to the Department of Commerce and to sponsor research studies consistent with the priorities;
- WTO Studies for evolving WTO compatible strategy;
- To support EPCs/Trade Promotion Organistions in undertaking market studies/survey for evolving proper strategies.
- To support marketing Projects abroad based on focus product - focus country approach. Under marketing Projects, the following activities will be funded:
    - Opening of Showrooms
    - Opening of Warehouses
    - Display in international departmental stores
    - Publicity Campaign and Brand Promotion
    - Participation in Trade Fairs, etc., abroad
    - Research and Product Development
    - Reverse visits of the prominent buyers etc. from the Project focus countries
- Export Potential Survey of the States;
    - Registration charges for product registration abroad for pharmaceuticals, bio-technology and agro-chemicals;
- Testing charges for engineering products abroad;
- To support Cottage and handicrafts units;
- To support Recognized associations in industrial clusters for marketing abroad

3. Eligible Agencies

Under the Scheme, financial assistance may be given to:

- Departments of Central Government and organization of Central / State Governments
- Export Promotion Councils
- Registered Trade Promotion Organizations
- Commodity Boards
- Apex Trade Bodies recognized under EXIM-Policy of Government of India
- Recognized Industrial clusters
- Individual exporters (only for testing charges of engineering products abroad and registration charges of pharmaceuticals, bio-technology and agro-chemicals)

4. Criteria for Sanction

Market Access Initiative (MAI) Scheme is based on Focus country-product approach and the eligible agencies should formulate a comprehensive Project for market access on the basis of Focus-Country and Focus - Product approach.

The Project should be for a particular product for a particular market for the period of 2-3 years so as to get the maximum result.

- The proposal should not duplicate the efforts of any existing activity or organization in the same field
- The assistance under the Scheme for activities under the Project will not be provided for which assistance under MDA has already been sanctioned.
- The funding for the Project will be on cost-sharing basis. However, the Empowered Committee may consider for enhancement or curtailment of the level of assistance on the merit of the Project.

5. Scrutiny and Sanctions

There shall be an Empowered Committee (E.C.), which will consider and approve the proposals. The E.C. will also monitor the implementation of the sanctioned proposals. The approval for sanction of the funds for approved Projects will be obtained from the competent authority as specified by the Ministry of Finance

6. Submission of the proposal

- The Project proposal should be specific with related details. All aspects related to the Project should invariably be supported by data/ surveys. The Projected benefits in both qualitative and quantitative terms in future should also be indicated.
- Project proposals consisting of eligible activities under the scheme would be forwarded to E&MDA Division, Deptt. Of Commerce by the Eligible Agencies through concerned administrative divisions/ Deptt./ Ministry concerned along with their specific recommendations.
- The recognized Industrial clusters will forward their Project through concerned EPCs concerned.
- The Project proposal should be accompanied by an executive summary as per annexure-I
- Project proposals received in E&MDA Division one month ahead of the meeting of the Empowered Committee will be considered in that particular meeting.

7. Details of approved purposes for the scheme and level of assistance

7.1 Market Study

Assistance would be provided for undertaking a market study of a particular market(s) for a particular product to have in depth analysis and to evolve a proper marketing strategy for greater market access as per the needs of that particular market. Professional consultants will be employed to undertake marketing studies and Indian Diplomatic Missions in the target countries would be associated with such studies. Such studies could be approved as a first step of a marketing Project and the findings/ recommendations would be the basis for further activities to be taken for greater market access. The Eligible Agencies will ensure the involvement of consultant appointed for surveys/studies during the execution of the Project also for smooth implementation.
<u>Level of assistance</u>: For market studies grant assistance of 75% of the total cost would be provided under the Scheme and the rest i.e. 25% would be borne by the Eligible Agencies. However, for studies assigned by the D/Commerce for the cause of export promotion, 100% assistance would be provided. The assistance for studies would be subject to a ceiling of Rs.75.00 lakh/each study.

7.2 Opening of Showrooms and Warehouses

Showrooms / Warehouses would be setup in leased or rental accommodation for identified products at identified centers identified on the basis of marketing studies/ surveys.
<u>Level of assistance</u> : Under the Scheme 75%, 50% and 25% of leasing / rental charges in the first, second and the third year, respectively, would be provided as assistance. A ceiling of Rs. 50.00 lakh would be for each market/ product per annum.

7.3 Display in International Departmental Stores

Tie up with local distributors and major stores shall be used as a tool for promoting particular product (s). International Departmental Store chains would be identified on the basis of marketing studies/surveys.

Level of assistance : Under the Scheme, 50% of rental charges of display space would be provided as assistance, subject to a ceiling of Rs. 50.00 lakh per annum/each product.

7.4 Publicity Campaign :

Intensive publicity campaigns for identified product/products in the identified market through various means would help in creating a brand identity for Indian products in international markets.
Level of assistance : 50% assistance would be provided for two years in a particular market subject to a ceiling of Rs.50.00 lakh per annum/ per market. The assistance can be considered for the third year after a review of the result of the Project in the first two years.

7.5 Participation in Trade Fairs, BSMs etc. abroad :

Under the Scheme, assistance would be provided for participation in trade fairs / exhibitions at identified potential places abroad on Focus Country-Product basis. Participation in such fairs/exhibitions will normally be part of a comprehensive strategy. To maximize the benefits such efforts should be linked with effective publicity campaign, seminars, buyer-seller meets etc. These activities will be coordinated by the Eligible Agencies.
Level of Assistance : 2/3 rd of the actual expenditure. The expenditure on TA/DA would be met by each participant. The assistance would be subject to a ceiling of Rs.50.00 lakh for each fair. The following sub-components would be covered :

- Venue Cost
- Publicity cost for the event
- Cost of the catalogues and other material
- Translation and Interpreters' charges
- Any other component approved by the Empowered Committee

7.6 **Assistance to Industrial Clusters**

The funds shall be provided through EPC concerned on the prescribed scale for the activities such as Market study, participation in trade fairs etc. abroad, opening of warehouse & showroom, display in international store and publicity.

8. Changes in Approved Projects :

No changes shall be made in the Project (even if no additional costs are involved) without the prior approval of the Department of Commerce.

Annex-I

Application form for Assistance under MAI for Marketing Project

(Where necessary enclose a detailed write up)

1. Name of Organisation/ EPC/TPO

2. Name of Project/Study for which MAI assistance is requested.

3. Whether it is based on Focus country-product basis.

3.1 If Yes, Name of Country/ countries and in case more than one country is to be covered and whether the markets are similar in nature.
3.2 If No, give justification for taking it up under the Scheme

4. Whether the Project is based on findings of any study / survey. If not, the basis/grounds on which the Project is prepared.

4.1 If Yes, name of the organisation, which undertook the study/survey. A copy of the summary of the report alongwith findings/ recommendations should be enclosed.

4.2 If No, attach a brief justification for not based on the study/ survey

5. Whether the Project would be taken up by the Ogranisation/ EPC itself. If not, give details about implementing agencies alongwith the reasons why the Project is not being taken up by the EPC/ TPOs itself etc.

6. Whether financial assistance has been taken earlier for such Projects, under MAI/ MDA or from any other Scheme of Government of India/ States.

6.1 If yes, the details thereof

6.2 What was the cost and what were the specific benefits of the last activity. Pl specify :
a) Number of participants/ contact persons
b) Number of orders booked & their value
c) Specific result of publicity etc. & how did the industry benefited
d) Other benefits.

7. Period during which the Project is to be undertaken

8. Proposed activities to be undertaken under the Project

1.
2.
3.
4.
5.

9. The total cost of the Project- year- wise.

10 The level of assistance sought under MAI year-wise for each activity.

11 Specific targeted benefits after completion of the Project as per item 6.2

SETTING UP BUSINESS OPERATIONS IN INDIA

Opening Office in India

A foreign company planning to set up business operations in India has the following options :

- As an incorporated entity by incorporating a company *under the Companies Act,1956 through
  - Joint Ventures; or
  - Wholly Owned Subsidiaries

  * Please see note on incorporation of a company at Annexure-1

- As an unincorporated entity through
  - Liaison Office/Representative Office
  - Project Office
  - Branch Office

Such offices can undertake activities permitted under the Foreign Exchange Management (Establishment in India of Branch Office of other place of business) Regulations, 2000.

Setting up Liaison/Representative/Branch/Project Office

Foreign company can set up Liaison/Branch Offices in India after obtaining approval from RBI. RBI has given general permission to foreign companies to establish Project Offices in India subject to certain conditions.

Procedure to be followed for obtaining Reserve Bank's approval for opening Liaison Office/Representative Office

A Liaison office can carry on only liaison activities, i.e. it can act as a channel of communication between Head Office abroad and parties in India. It is not allowed to undertake any business activity in India and cannot earn any income in India. Expenses of such offices are to be met entirely through inward remittances of foreign exchange from the Head Office abroad. The role of such offices is, therefore, limited to collecting information about possible market opportunities and providing information about the company and its products to the prospective Indian customers.

The companies desirous of opening a liaison office in India may make an application in form FNC-1 along with the documents mentioned therein to Foreign Investment Division, Foreign Exchange Department, Reserve Bank of India, Central Office, Mumbai. This form is available in www.rbi.org.in.

Permission to set up such offices is initially granted for a period of 3 years and this may be extended from time to time by the Regional Office in whose jurisdiction the office is set up. Liaison/representative offices have to file an Activity Certificate on annual basis from a Chartered Accountant to the concerned Regional Office of the RBI, stating that the Liaison Office has undertaken only those activities permitted by RBI.

Procedure for setting up Project Office

- Foreign companies are granted projects in India by Indian entities. General Permission has been granted by RBI vide Notification No. FEMA 95/2003-RB dated July 2, 2003 to foreign companies to open Project Office/s in India provided they have secured from an Indian company, a contract to execute a project in India, and
- the project is funded directly by inward remittance from abroad; or
- the project is funded by a bilateral or multilateral International Financing Agency; or

- the project has been cleared by an appropriate authority; or
- a company or entity in India awarding the contract has been granted Term Loan by a Public Financial Institution or a bank in India for the project.
- However, if the above criteria are not met, or if the parent entity is established in Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran or China, such applications have to be forwarded to Central Office of the Foreign Exchange Department of the Reserve Bank of India at Mumbai for approval.

Procedure for setting up Branch office

Reserve Bank permits companies engaged in manufacturing and trading activities abroad to set up Branch Offices in India for the following purposes:

- To represent the parent company/other foreign companies in various matters in India e.g. acting as buying/selling agents in India
- To conduct research work in the area in which the parent company is engaged
- To undertake export and import activities and trading on wholesale basis
- To promote possible technical and financial collaborations between the Indian companies and overseas companies.
- Rendering professional or consultancy services
- Rendering services in Information technology and development of software in India
- Rendering technical support to the products supplied by the parent/Group companies.
- A branch office is not allowed to carry out manufacturing, processing activities directly/indirectly. A Branch Office is also not allowed to undertake Retail Trading activities of any nature in India. Branch Offices have to submit Activity Certificate from a Chartered Accountant on an annual basis to the Central Office of FED. For annual remittance of profit Branch Office may submit required documents to an authorised dealer.
- Permission for setting up branch offices is granted by the Reserve Bank of India. RBI considers the track record of the Applicant Company, existing trade relations with India and financial position of the company while scrutinising the application.

Application for setting up these offices may be submitted to Chief General Manger, Exchange Control Department (Foreign Investment Division), RBI, Central Office, Mumbai in Form FNC-I.

Annexure-1

Incorporation of a Company

Incorporation of a company in India is governed by the Companies Act 1956. A company could be a private limited company or a public limited company.

A private limited company is one that through its Articles restricts the rights to transfer its shares, limits the number of its members to 50, prohibits any invitation to the public to subscribe for any shares in the company and prohibits any invitation or acceptance of deposits from other than its members.

A public company is a company, which is not a private company.

For registration and incorporation of a company, an application has to be filed with Registrar of companies. Application for registration of a company accompanied by the selected names, memorandum of association and articles of association and other necessary documents is to be filed with the Registrar of companies of the State in which the company is proposed to incorporated. The documents required to be filed along with applications are as follows: -

a. Memorandum of Association
b. Articles of Association
c. The agreement, if any, which the company proposes to enter into with any individual for appointments as its managing or whole time director or manager
d. A copy of the letter of the Registrar of Companies intimating the availability of the proper time
e. Documents evidencing payment of prescribed registration and filling fee
f. Documents evidencing the directorship and situation of Registered Office inform 32 and Form 18 respectively and declaration of compliance with the requirements of Companies Act for giving consent to act as a director.

Upon compliance with all requirements, the Registrar will register the company and issue a certificate of incorporation of company that would bring the company into existence as a legal entity. Once the company has been duly registered and incorporated as an Indian company, it is subject to Indian laws and regulations as applicable to other domestic Indian companies.

For further details please visit the website of Ministry of Company Affairs http://www.mca.gov.in/