LOK SABHA DEBATES

LOK SABHA

Friday, December 13, 1991/ Agrahyana 22, 1913 (Saka)

The Lok Sabha met at Eleven of the Clock

[MR. SPEAKER *in the Chair*]

ORAL ANSWERS TO QUESTIONS

[*English*]

Norms for External Borrowings

*325. SHRI GEORGE FERNANDES: Will the Minister of FINANCE by pleased to state:

(a) whether there is any proposal under the consideration of the Government to liberalise norms for external borrowings for export-oriented projects and small scale industrial units; and

(b) if so, the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI RAMESHWAR THAKUR): (a) and (b). A Statement is laid on the Table of the House.

STATEMENT

The Government has already issued Guidelines dated 7th November, 1991, introducing an automatic procedure dispensing with prior approval of Department of Economic Affairs, in respect of self-liquidating foreign currency loans for export-oriented units. These are placed below at *Appendix A*.

In addition, for those export oriented projects, which do not avail of this automatic procedure, a menu of options is provided, which includes release of free foreign exchange, commercial loans, export credits and lease financing. This has been clarified in the detailed guidelines dated the 8th December, 1991, available in *Appendix B.*

In respect of capital goods requirements of small-scale units, Reserve Bank of India's policy of relaxation with regard to import of capital goods, announced in November, 1991, provides appropriate facilities. First, their import requirements are expected to be met through the release of free foreign exchange, which has been permitted by the Reserve Bank of India upto a limit of Rs. 50 lakhs. Second, the import of capital goods upto a value of Rs. 100 lakhs will also be allowed by Reserve Bank of India directly if the importer is able to arrange suppliers' credit of 360 days.

APPENDIX - A

Ministry of Finance Department of Economic Affairs

Automatic procedure for clearance of self-liquidating foreign currency loans of export-oriented projects.

Objectives:

(1) To facilitate rapid expansion of export capability.

(2) Minimise administrative intervention in commercial transactions.

(3) Introduce transparency and consistency through the framing of guidelines and avoidance of case by case approval.

Eligibility:

(i) This facility would be limited to utilization by export oriented projects. This definition would include not only 100% EOUs, EPZ units, etc. but all projects which have export capability. Only projects generating net foreign Exchange Earnings as defined by RBI sufficient to liquidate the foreign exchange loan would be considered. Projects not having net foreign exchange earnings would not be eligible even if the corporate entity has foreign exchange earnings from other sources apart from the project being financed.

(ii) Expenditure and modernisation of existing units with a view to enhance export capability would also be eligible.

Purpose of Loans:

(i) To finance capital goods, raw material and Component imports and technology payments as per the import finance regime in force.

(ii) To finance local cost - rupee requirements of projects

Amount:

As per the requirement of the project.

Source of Loan:

No restriction. Free access permitted to banks, international financial institutions, foreign/NRI equity holders, collaborators, buyers or other foreign/NRI individual and corporate entities. Interest Rate:

Maximum permitted interest rate would be the prime rate in the currency of the loan or six-month floating rate plus 23. p.a. whichever is higher. However, maximum limit does not envisage in built interest rate options.

Currency of Loans:

No restriction though in-built currency options would not be permitted.

Maturity:

Minimum maturity would be two years with six-monthly repayments. However, there would be no restrictions on the maximum maturity limit which can be adjusted by the borrower on the basis of cash flow expectations.

Debt Servicing:

Repayments of the Loan would be subject to availability of net foreign exchange earnings, of the exporter, as defined by RBI and as verified by the concerned authorised dealer prior to remittance Interest payments, however, would be permitted without this restriction.

Pre-Payment:

The loan document must specify pre-payment at the option of the borrower without penalty. Acceleration of repayments, subject to minimum maturity, would also be dependent on the availability of net foreign exchange earnings as defined by RBI and verified by authonsed dealers.

Default / Penal Interest Rate:

A maximum of 2% over the normal rate would be permitted.

Security

No guarantee would be permitted from an Indian Bank, Indian Developmental financial Institution or the Indian Office of a foreign Bank. Charge on the assets would require recommendation and clearance from the Indian Bankers/ Indian DFI's financing the project.

Loan Approval Procedures:

(1) Prior approval of the Department of Economic Affairs would not be necessary.

(2) The borrower would have to register the loan with the Reserve Bank of India and obtain formal approval of the RBI. RBI would ensure that the approval process is sufficiently expedited to meet the intentions of automaticity.

(3) RBI would take steps to delegate powers of approval to its Regional Offices.

(4) The system of taking on record of medium/long term loan agreements will be dispensed with under this procedure and the approval issued by 8th Reserve Bank of India would be sufficient to enable transactions to place through the nominated authoriesed dealer.

(5) Prior approval of the Reserve Bank of India would not be necessary for the remittance of interest or debt repayments which would be done through the nominated authorised dealers on the basis of due verfication of availability of foreign exchange by the authoriesed dealer.

(6) The RBI would clearly define net Foreign Exchange earnings and inform authorised dealer.

Monitoring Mechanism:

(1) Copies of the approvals issued by the RBI Regional Offices would be marked to External Commercial Borrowing Division, Department of Economic Affairs, to ensure regular updation of the external commercial debt data base maintained on the CS-DRMI systems by the ECB Division of DEA.

(2) Central Office, RBI, would also provide by the 5th of every month details of the loan-wise consolidated statement of the loan approvals issued during the previous month giving details of the borrower, lender, loan key number, amount, interest rate, maturity, default/penal interest rate etc.

(3) Six monthly re-conciliation would be conducted between the DCB Division, DEA and the Central Office of the Reserve Bank of India in April and October of every year.

Implementation

(1) The amended procedure will come into effect from date of issue of guidelines.

APPENDIX - B

Ministry of Finance Department of Economic Affairs ECB Division

Revised guidelines for financing the Foreign Exchange requirements of Export-Oriented Projects

100 % EOU's, Units in FTZ/EPZ and units operating under export obligation imposed vide para 197 of the Exim Policy will continue to be eligible for a menu of options given below to meet their foreign exchange requirements.

These revised guidelines will supercede earlier guidelines dated 19.3.91.

1. For Foreign exchange requirements of used 20 Million and below;

a) Automatic clearance against self

liquidating loan as per the guidelines schedule dated 7.11.91

b) Coverage under Foreign Equity.

c) Release of Foreign Exchange by RBI where the requirement does not exceed Rs. 50 lakhs.

d) One Year Loan/Suppliers Credit approved by RBI where requirements are between Rs. 50 Lakhs and Rs. 100 Lakhs.

e) In case requirements is more than Rs. 100 Lakhs. Direct ECB, Export Credit, lease Financing of at least 2 years bullet maturity or 5 years maturity with six monthly repayments as approved by DEA.

f) In case of Export Financing which is normally only upto 85% of the import the gap of 156 will be met by release of free foreign exchange as decided by RBI or covered by a one year loans. The Gap can also be financed by Foreign Equity if the project authorities so desire.

g) The earlier limits on the provision of a guarantee by Indian Bank or Financial Institutions upto a value of Rs. 15 Crores would now stand amended to USD 20 million.

For Foreign Exchange Requirements above use 20 million and below:

2. For Projects where foreign exchange requirements exceed USD 20 Million, source of finance would be as follows:

a) Foreign Equity

b) Self-liquidating loan as per guidelines issued on 7.11.91.

c) A combination of A & B above.

d) Other sources of finance as decided by DEA.

[*Translation*]

SHRI GEORGE FERNANDES: Mr. Speaker, Sir, I have gone through the statement laid on the table of the House but I have certain objections regarding some of the points. My objection pertains to the two appendices enclosed with the statement. One of them is:-

[*English*]

Automatic procedure for clearance of self-liquidating foreign currency loans of export-oriented projects.

[*Translation*]

and the second is:-

[*English*]

Revised guidelines of financing the foreign exchange requirements of export-oriented projects.

[*Translation*]

In both the cases, you are giving open clearance and in the process, I am unable to understand to how you will manage to check over invoicing when you are talking of automatic clearance. Suppose you may be giving automatic clearence to the tune of Rs. 50 lakh but how will you ascertain the goods imported are actually worth Rs. 50 lakhs. The instance of Pepsi Cola is fresh in our memory. Two to three months back we had raised this issue in this august House as to how they acquired foreign exchange by increasing the price of the machinery imported form foreign countries. Similarly, what measures do you propose to take to prevent over invoicing which is likely to crop up in the course of this automatic clearance.

SHRI RAMESHWAR THAKUR: Mr. Speaker, Sir, this facility has been extended to provide assistance to the people engaged in small business particularly to those who are interested in importing capital goods or machinery upto Rs. 50 lakh from foreign countries. For this they are not required to approach the Finance Ministry and now they can directly contact the Reserve Bank of India for permission. This apprehension that there may be over invoicing, is a different issue. This facility has been extended only to save small businessmen from any kind of inconvenience and to ensure that the small businessmen can import goods upto Rs. 50 lakh from abroad. They can avail this facility by approaching to the Reserve Bank directly. I understand that there will be no chance of irregularity. Besides, monitoring facility is already available with the Reserve Bank and the Finance Ministry as well to check such irregularities, if any. whosoever is given this facility of automatic clearance, he can order capital goods upto a limit of Rs. 50 lakhs and they will all be monitored. Those who are found guilty of bungling or over-invoicing or under-invoicing will be dealt with by different departments i.e. Income Tax or Revenue Department. The other departments such as the Enforcement Directorate under the Revenue Department take care of these things. However, this facility has been provided for importing goods smoothly.

SHRI GEORGE FERNANDES: Mr. Speaker, Sir, this issue has not been categorically explained. As such I want a clear statement. You have mentioned that one can import goods worth Rs. 50 lakhs but here anybody can import capital goods worth Rupees one crore against the suppliers' credit. I want a clarification in this regard that if someone imports capital goods worth Rupees 50 lakhs and takes clearance from you for Rs. one crore under the open clearance system and you have no clearance check then how will you have control over it. Is this not a problem before you.

SHRI RAMESHWAR THAKUR: Mr. Speaker, Sir, the hon. Member had made a mention of Rs. 50 lakhs. If we see the entire details at length then we find that a number of facilities have been provided. The first facility is that the requirement of free foreign exchange upto Rs. 50 lakhs would be met by the Reserve Bank and between Rs. 50 lakhs to one crore shall also be treated as the requirement of Small industry. This facility will be provided only to those who will be able to arrange suppliers credit for 360 days and will manage to repay the loan from their export earnings. It is wrong to say that the people will avail the facility of Rs. one crore and will import the goods worth Rs. 50 lakhs. Whatever the goods are received, they are thoroughly checked. The facility which we are talking about pertains only to facilitate the release of foreign exchange. Income tax, customs and excise duty checks shall also continue. All the documents relating to capital goods which will be imported, would be thoroughly checked. Similarly there shall be a monitoring cell in R.B.I. also. The problem we were facing so far in imports and in the wake of which all sorts of imports were stopped on 19.3.1991, there has been an improvement in the situation thereafter. This facility has been available to people involved in small transaction. According to the rules that were in existence upto 19.3.1991. There were no specific provisions for small industries and all were categorised uniformely. Now Government has extended certain facilities exclusively to small industries so that importers of small goods do not face much inconvenience.

SHRI GEORGE FERNANDES: Mr. Speaker, Sir, what the hon. Minister has said does not appeal to me however, I want to ask the next question. It is not proper to name Pepsi Cola only because not only Pepsi but hundreds of companies also have been looting the country in this manner and now they will get a free hand also. I am not saying that you are allowing them to loot but my apprehension is that they would cause furthur damage to this country. My next question is that you stated here that..

[*English*]

Repayment of loans will be subject to availability of net foreign exchange earnings.

[*Translation*]

In other words those companies which will take loans under this new rule shall repay the loan and the interest thereon from their export earnings. What worries me is that it has been our experience in the past that things are imported on the assurance that they will export their finished goods and thereafter it is said that goods cannot be exported since they are of sub standard quality. Besides this there can be other eventualities also such as strike in the factory or any other similar problem and in such circumstances they shall not be in a position to repay the loan. Under such circumstances, will the Government be prepared to take the responsibility of those people who would fail in exporting their goods and will not be in a position to repay their foreign loan and if the Government does not own its responsibility, what shall be the outcome in that situation?

SHRI RAMESHWAR THAKUR: Mr. Speaker, Sir, I am of the view that most of our people belonging to business community who are in small business are responsible persons and who import goods ranging from Rs. 50 lakhs to one crore on the understanding that they would export the goods produced by them. Mostly we find that such people fulfil their commitments. It is going too far if we assume things and start thinking that they should behave in this manner. In case the hon. Member has come across any such case of gross bungling, he should share the information with us. Recently we have incorporated certain changes in it since 7th November. After that if a small trader is found indulged in bungling, a stem action will be taken against him. We shall certainly extend facilities to small traders so that they can import the required material and thereafter export the finished goods. Subsequently whatever we will earn, whatever credit they take, they will repay it. We hold a firm view and the intention of the Government is that we should promote trade and specially the export trade to the extent possible and we know that the contribution of our small traders is substantial in our export and as such provision to provide this facility to small traders in particular has been made and through this they will be able to export their goods to the maximum extent. As I have already stated that there will be a monitoring Cell in the Ministry as well as in the Reserve Bank of India to deal with such specific cases of bungling. However, despite this effective monitoring, if any hon. Member comes across any specific case, we shall take action on that.

[*English*]

SHRI MANORANJAN BHAKTA: It is well known that already a large amount of foreign borrowings, internal borrowings, are lying unpaid. I would like to know specifically from the hon. Finance Minister what is the percentage on the GDP and GNP borne on the existing foreign borrowings and whether Government will consider to have a statute in future to moitor and control the foreign borrowings.

SHRI RAMESHWAR THAKUR: So far as foreign borrowings are concerned, they are of a different nature. Project to project site, we have got items of which we have got the complete details. If the hon.member wants, we can give it. We have got project-wise details. There are certain countries which give as aid like UK, Sweden and other countries from where it is given without any conditions attached in the sense that there is no interest. We have got IDA aid for longer term where we have not to pay interest generally for 50 years. We have to pay only 0.75 per cent service charges. In other cases, there are different conditions attached to different loans. Loans and aids are availed by the country for its economic development. It is to meet the nation's requirement in regard to the development requirements.

MR. SPEAKER: The question is very simple Mr. Minister. The hon. Member wants to know what is the percentage of foreign borrowings to the GDP.

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): As at the end of last year, the total external debt of the country including the debt that we owe to the non-resident Indians amounted to 22 per cent of our total gross domestic product.

[*Translation*]

SHRI RAJNATH SONKAR SHASTRI: The hon. Finance Minister has given the guidelines issued for import, export credits and lease and Financing in reply to a question of Shri George. I want to draw your attention towards a very simple problem. In our county we have several small scale industries and beads a sort of pearl is exported. The cost of this pearl is Rs. 55 per kilo and the supplier exports it at the rate of Rs. 35 per kg. The Exporters import the raw material which is used in the work of finishing these pearls. Thereby they save 130% on custom duty under the shelter of your policy. All the industries are running in heavy losses since the goods are exported at cheaper rates while their domestic market is higher than that of their foreign market. As such I would like to know that in the matter of import and export business, the raw material which is imported custom free for the purpose of producing manufactured goods; and sold here in black market. Under this policy how will you put a check on it?

MR. SPEAKER: Does the question arise out of it? Does this question relate to the original question?

SHRI RAJNATH SONKAR SHASTRI: The Minister can know better. Let me make it clear once more that this is a very serious matter.

MR. SPEAKER: If he wishes he can answer the question. You ask the question. Though it does not relate to the subject yet in case the Minister is willing to reply I will give a chance.

SHRI RAMESHWAR THAKUR: Mr. Speaker, Sir, although it does not relate to this question yet I want to assure the hon. Member that in the import and export of pearl whatever description the hon. member has given right now, I will try to find out the detailed report in this regard and thereafter we shall take appropriate action. This is my assurance to those small traders who collect beads, that we will take care of them. We have to look at the conditions prevailing in the international market also. Sometimes, in view of the hard competition in foreign markets we have to give exemption in taxes to compensate the exporters because the price of goods to be exported is sometimes less than the cost of production. But what has been particularly pointed out by the hon. Member in this regard will be looked into and the hon. Member will be intimated later on about the action we can take in the matter and if there is any scope of providing relief in custom duty etc. or otherwise we shall consider it in due course.

[*English*]

MR. SPEAKER: All these are assurances given on the floor of the House.

(*Interruptions*)

Impact of Devaluation of Rupee on Exports and Imports

*326. SHRI DIGVIJAYA SINGH: Will the Minister of COMMERCE be pleased to state:

(a) whether the Government have examined the impact of devaluation of the rupee on exports and imports;

(b) if so, the percentage rise or fall in exports and imports after devaluation of the rupee in terms of dollars till November 15, 1991;

(c) whether the devaluation of the rupee has affected our trade with the rupee payment area countries; and

(d) if so, the steps proposed to be taken by the Government to build u trade relations with those countries?

THE DEPUTY MINISTER IN THE MINISTRY OF COMMERCE (SHRI SALMAN KHURSHEED): (a) to (d). A statement is laid on the Table of the House.

STATEMENT

(a) yes, Sir. However, it needs to be pointed out that exports do not merely depend on devaluation, but several other factors such as global trading environment, domestic production, availability of surplus for exports, availability of imported critical raw materials