

UNIT 7 - Line of Credit Guidelines by IDEAS- Explained



Line of Credit Guidelines by IDEAS: Explained

Introduction

Indian Development and Economic Assistance Scheme (IDEAS) was given approval by the cabinet committee on Economic affairs chaired by Prime Minister Modi.

About IDEAS

- IDEAS is used by GOI to extend Line of Credit (LoC) to African nations, neighbours and other developing nations
- Earlier Department of Economic Affairs was held responsible for LoC till 2010
- GOI used to sign deed of guarantee with the recipient nations of LoC

- This deed serves as the guarantee against any default against principal or interest by the borrowing nations
- Now new guidelines have made Line of Credit to be processed through IDEAS

Agencies Involved in IDEAS

- Department of Economic Affairs is the implementation agency
- Ministry of Finance is the nodal agency
- EXIM bank is the lending agency
- Any PSU Bank or lending agency authorised by Ministry of Finance can extend Line of Credit

Countries covered under LoC

- Low-income countries classified according to IMF
- Lower Middle-Income countries with no minimum binding concession requirement
- Other developing nations
- Detailed classification of low and low-middle income nations available under EXIM bank annexure

Terms of Credit

- The terms of credit vary across three categories of low income, low middle income and other developing nations
- The maturity period of the loan extended by LoC through IDEAS is 25 years maximum
- The maximum interest rate charged by EXIM Bank is 1.75%
- A maximum grant of 37.48 % is given to the borrowing nation by GOI
- A moratorium of 5 years
- Elements of credit are calculated by EXIM bank according to IMF formula
- GOI is the ultimate authority in India to revise the terms from time to time for LoC extended through IDEAS
- Countries are selected through competitive bidding based on their proposals
- Tenor of Infrastructure projects worth \$200 million or more and strategic important projects worth \$100 million or more are extended by 5 year

Benefits of IDEAS to Borrowing Nation

- Low interest rate to the tune of 1.5 % and a maximum of only 1.75 %

- 100 % finance from GOI
- Exemption from duties and taxes
- Administrative charges at the lowest including commitment and management fee of 0.5 % per annum
- Friendly relations with India

Benefits to India

- India will earn good will among world nations helping low-income nations especially the African nations
- IMF has lauded the real and sincere efforts of India in development of African nations
- Establish trade relations with world nations
- The recently inaugurated Friendship Dam in Saudi Arabia is one such example
- India will get the support of the borrowing nations in the international scenario while voting on strategically important decisions in UN and other international organizations
- Mongolia, African Nations like South Africa, Ghana, Zimbabwe, Nigeria, Congo, Namibia and other developing nations are covered under IDEAS scheme of GOI
- Indian officials in the high level including Prime minister, President and Vice President have visited these countries to extend LoC through IDEAS
- India can establish diplomatic ties with these borrowing nations and strengthen herself
- Bilateral ties and many other agreements are signed with the borrowing nations

Conclusion

- IDEAS scheme of GOI and EXIM Bank promote the friendship of India with the world nations
- The massive tours made by Prime Minister Modi to different nations are in line with the IDEAS scheme and promoting India as a manufacturing hub in the international scenario
- Overall, IDEAS is a positive step of India growing globally establishing friendship with world nations through positive means