UNIT 8 EXPORT FINANCE

Structure

8.0 OBJECTIVES

After Studying this unit, you should be able to:

- describe the procedure of Pre-shipment Credit;
- explain various types and procedure of Post-shipment Credit;
- explain the role of Export Import Bank of India; and
- describe the recent developments in export finance.

8.1 INTRODUCTION

You have learnt various provisions of Exchange Regulations in Unit 6. Export financing is another important area of export business. Export finance refers to the credit facilities extended to the exporters at pre-shipment and post-shipment stages. It includes any loan to an exporter for financing the purchase, processing, manufacturing or packing of goods meant for overseas markets. Credit is also extended after the shipment of goods to the date of realisation of export proceeds. In this unit you will learn various schemes of finance available to exporters at pre-shipment and post-shipment stages. You will also be acquainted with the role of EXIM Bank in export finance.

8.2 INSTITUTIONAL FRAMEWORK

Institutional framework for providing finance comprises Reserve Bank of India, Commercial Banks, Export Import Bank of india and Export Credit and Guarantee Corporation. Reserve bank of India, being the central bank of country, lays down the policy framework and provides guidelines for implementation. Export finance short or medium term, is provided exclusively by the Indian and foreign commercial banks which are members of the Foreign Exchange Dealer's Association. The Reserve Bank of India function as refinancing institutions for short and medium term loans respectively, provided by commercial banks. Export Import Bank of India, in certain cases, participates with commercial bank in extending medium term loans to exporters. Commercial banks provide finance at a concessional rate of interest and in turn are refinanced by the Reserve Bank/Export Import Bank of India at concessional rate. In case they do not wish to avail refinance, they are entitled for an interest rate subsidy. Export Credit & Guarantee Corporation (ECGC) also plays an important role through its various policies and guarantees providing cover for commercial and political risks involved in export trade.

8.3 PRE-SHIPMENT FINANCE

Pre-shipment finance is provided to the exporters for the purchase of raw materials, processing them and converting them into finished goods for the purpose of export. Let us discuss various pre-shipment advances available to the exporters.

8.3.1 Packing Credit

The basic purpose of packing credit is to enable the eligible exporters to procure, process, manufacture or store the goods meant for export. Packing credit refers to any loan to an exporter for financing the purchase, processing, manufacturing or packing of goods as defined by the Reserve Bank of India. It is a short term credit against exportable goods.

Packing credit is normally granted on secured basis. Sometimes clear advance may also be granted. Many advances are clean at their initial stage when goods are not yet acquired. Once the goods are acquired and are in the custody of the exporter banks usually convert the clean advance into hypothecation/pledge. Let us first discuss the detail procedure of packing credit.

Eligibility: Packing credit is available to all exporters whether merchant exporters, Export/ Trading/Star Trading/Super Star Trading Houses and manufacturer exporters. Manufacturers of goods supplying to Export/Trading/ST/SST Houses and merchant exporters are eligible for packing credit. The credit is given to eligible exporters for specified purposes against irrevocable letter of credit by the foreign buyer through the medium of a reputed bank. It is also available against a confirmed or firm export order/contract placed by the buyer for export of goods from India.

Running Account Facility: The RBI has permitted banks to grant packing credit advances even without lodgement of L/C or firm order/contract under the scheme of **Running Account Facility** subject to the following conditions:

i) The facility may be extended, provided the need for Running Account facility has been established by the exporters to the satisfaction of the bank
ii) The banks may extend this facility only to those exporters whose track record has been good
iii) L/C or firm order is produced within a reasonable period of time. For Commodities under selective credit control, banks should insist on production of L/Cs or firm orders within one month from the date of sanction.
iv) The concessive credit available in respect of individual pre-shipment credit should not go beyond 180 days.

Packing credit may also be given under the Red Clause letter of credit. In this method, credit is given at the instance and responsibility of the foreign bank establishing the L/C. Here, the Packing credit advance is made against a simple receipt and is unsecured.

Amount: The loan amount is decided on the basis of export order and the credit rating of the exporter by the bank. Generally the amount of packing credit will not exceed FOB value of the export goods or their domestic value whichever is less. It can be to the extent of domestic value of the goods even though such value is higher than their FOB value provided the goods are entitled to duty draw back and also covered by the Export Production Finance Guarantee of the ECGC.

Period: The Packing Credit can be granted for a maximum period of 180 days from the date of shipment. The banks are authorised by RBI to extend this period. This period can be extended for a further period of 90 days, in case of non-shipment of goods within 180 days. The extension can be done provided the banks are satisfied that the reasons for extension are due to circumstances beyond the control of the exporters. Pre-shipment credit may be given for a longer period upto a maximum of 270 days, if the banks are satisfied about the need for longer duration of credit.

Rate of Interest: The interest payable on pre-shipment finance is usually lower than the normal rate, provided the credit is extinguished by lodging the export bills on remittances from abroad. If the exporter fails to do so they would not be able to avail concessional rate of interest.

In order to avail the packing credit, exporters are expected to make a formal application to the bank giving details of credit requirements alongwith the required documents.

8.3.2 Advance against Incentives

When the value of the materials to be procured for export is more than FOB value of the contract, the exporters may get packing credit advance more than the FOB value of the goods. The excess of cost of production over the FOB value of the contract represents incentives receivables. For example, when the domestic price of goods exceeds the value of export orders, the difference represents Duty drawback entitlement. Banks can grant advances against duty drawback at pre-shipment stage subject to the condition that the loan is covered by Export Production Finance Guarantee of Export Credit Guarantee Corporation (ECGC). This guarantee enables banks to sanction advances at the pre-shipment stage to the full extent of cost of production. The extent of cover and the premium are the same as for packing crédit guarantee.

8.3.3 Pre-shipment Credit in Foreign Currency

This is an additional window to rupee packing credit scheme. This credit is available to cover both the domestic and imported inputs of the goods exported from India. The facility is available in any of the convertible currencies. The credit will be self liquidating in nature and accordingly after the shipment of goods the bills will be eligible for discounting/rediscounting or for post-shipment credit in foreign currency. The exporters can avail this finance under the following two options.

i) the exporters may avail pre-shipment credit in rupees and, then, the post-shipment credit either in rupees or in foreign currency denominated credit or discounting/rediscounting of export bills.
ii) the exporters may avail pre-shipment credit in foreign currency and discounting/ rediscounting of the export bills in foreign currency.

PCFC credit will also be available both to the supplier units of EPZ/EOU and the receiver units of EPZ/EOU. The credit in foreign currency shall also be available on exports to Asian Clearing Union (ACU) Countries. This will be extended only on the basis of confirmed/firm export orders or confirmed L/Cs. The Running Account facility will not be available under the scheme.

8.4 POST-SHIPMENT FINANCE

It may be defined as "any loan or advance granted or any other credit provided by a bank to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realisation of export proceeds. It includes any loan or advance granted to an exporter on consideration of or on the security of, any Duty Drawback or any cash receivables by way of incentive from the Marketing Development Fund or any other relevant source."

While granting post-shipment finance, banks are governed by the guidelines issued by the RBI, the rules of the Foreign Exchange Dealers Association of India (FEDAI), the Trade

Control and Exchange Control Regulations and the International Conventions and Codes of the International chambers of Commerce. The exporters are required to obtain credit limits suitable to their needs. The quantum of credit depends on export sales and receivables.

Post-shipment finance is granted under various methods. The exporter may choose the type of facility as per his requirement. The Banks scrutinise the documents submitted for compliance of exchange control provisions like:

i) the documents are drawn in permitted currencies and payment receivable as permitted method of payment;
ii) the relevant GR/PP form duly certified by the customs is submitted and particulars as stated in the GR/PP form are consistent with the documents tendered as well as the sale contract/firm order etc./letter of credit;
iii) the documents are submitted within the time limit stipulated and in case of delay suitable explanation is made;
iv) the period of usance is in consonance with the time limit prescribed for realisation of export proceeds.

Let us now discuss various types of post-shipment finance.

8.4.1 Negotiation of Export Documents under Letters of Credit

Where the exports are under letter of credit arrangements, the banks will negotiate the export bills provided it is drawn in conformity with the letter of credit. When documents are presented to the bank for negotiation under L/C, they should be scrutinized carefully taking into account all the terms and conditions of the credit. All the documents tendered should be strictly in accordance with the L/C terms. It is to be noted that the L/C issuing bank undertakes to honour its commitment only if the beneficiary submits the stipulated documents. Even the slightest deviation from those specified in the L/C can give an excuse to the issuing bank of refusing the reimbursement of the payment that might have been already made by the negotiating bank.

8.4.2 Purchase/Discount of Foreign Bills

Purchase or discount facilities in respect of export bills drawn under confirmed export contracts are generally granted to exporters who enjoy Bill Purchase/Discounting limits sanctioned by the bank. As the security offered by the issuing bank under letter of credit arrangement is not available, the financing bank is totally dependent upon the credit worthiness of the foreign buyer. The documents, under the Documents against Payment (D/P) arrangements, are released through foreign correspondent only when payment is received. Whereas in the case of Documents against Acceptance (D/A) bills, documents are delivered to the overseas importers against acceptance of the draft to make payment on maturity. Since the financing banks are open to the risk of non-payment, ECGC policies issued in favour of exporters and assigned to banks are insisted upon.

Under the policy, ECGC fixes limits and payment terms for individual buyers and the financing bank has to ensure that the limit is not exceeded so that the benefits of policy are available. Banks also secure a guarantee from ECGC on the post-shipment finance extended by them either on a selective or whole turnover basis. Banks sometimes do obtain credit reports on foreign buyers before they purchase the export bills drawn on the foreign buyer.

8.4.3 Advance against Bills Sent on Collection

Post-shipment finance is granted against bills sent on collection basis in the following situations:

i) when the accommodation available under the foreign bills purchase limit is exhausted
ii) when some export bills drawn under L/C have discrepancies
iii) where it is customary practice in the particular line of trade and in the case of exports to countries where there are problems of externalisation.

Under the above situation, the bank may send the bill on collection basis and finance the exporter to some extent out of the total bill amount. The amount advanced will be liquidated out of the export proceeds of the export bill and the balance paid to the exporter.

Exporters may avail themselves on the forward exchange facility where they do not wish to be subjected to exchange risk on account of the new procedures for overdue export bills.

8.4.4 Advance against Goods Sent on Consignment

Sometimes exports are effected on consignment basis. In such condition payment is receivable subject to sale of goods. Goods are exported at the risk of exporter for sale. The banks may finance against such transaction subject to the exporter enjoying specific limit for such purpose. The overseas branch/correspondent of the bank is instructed to deliver the documents against Trust Receipt.

8.4.5 Advance against Export Incentives

Advances against the export incentives are given at the pre-shipment stage as well as the post-shipment stage. However, the major part of the advance is given at the post-shipment stage. The advance is granted to an exporter in consideration of or on the security of any duty drawback incentives receivable from the Government. The banks follow their own procedure in granting the advance. The most common practice is to obtain a power of attorney from the exporter executed in their favour by the banks. It is sent to the concerned government department like the Director General of Foreign Trade, Commissioner of Customs, etc. These advances are not granted in isolation. It is granted only if all other types of export finance are extended to the exporter by the same bank.

8.4.6 Advance against Undrawn Balances

In some of the export business, it is the trade practice that the bills are not drawn for the full invoice value of the goods. A small part of the bills is left undrawn for payment after adjustments due to difference in weight quality, etc. Advances are granted against such undrawn balances. In this case the export proceeds must be realised within 90 days.

The advances are granted provided the undrawn balance is in conformity with the normal level of balances left undrawn subject to a maximum of 5% of the full export value. The exporters are supposed to give an undertaking that they will surrender the balance proceeds within 6 months from the date of shipment.

8.4.7 Advance against Retention Money

Banks grant advances against retention money, which is payable within one year from the date of shipment. The advances are granted upto 90 days. If such advances extend beyond one year, they are treated as deferred payment advance which are also eligible for concessional rate of interest.

8.4.8 Post-shipment Export Credit Guarantee and Export Finance Guarantee

Post-shipment finance given to exporters by banks through purchase, negotiation or discount of export bills or advances against such bills qualifies for this guarantee. Exporters are expected to hold appropriate shipments or contracts policy of ECGC to cover the overseas credit risks.

Export Finance Guarantee covers post-shipment advances granted by banks to exporters against export incentives receivable in the form of duty drawback, etc.

8.4.9 Post-shipment Credit in Foreign Currency

The exporters have the option of availing of export credit at the post-shipment stage either in rupee or in foreign currency. The credit is granted under the Rediscounting of Export Bills Abroad Scheme (EBR) at LIBOR linked interest rates. The scheme covers export bills with usance period upto 180 days from the date of shipment. Discounting of bills beyond 180 days requires prior approval from RBI. The exporters have the option to avail of pre-shipment credit and post-shipment credit either in rupee or in foreign currency. If pre-shipment credit has been availed of in foreign currency, the post-shipment credit necessarily to be under the EBR scheme. This is done because the foreign currency pre-shipment credit has to be liquidated in foreign currency.

Check Your Progress A

1. What do you mean by packing credit ?

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2. What is Export Finance Guarantee ?

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3. What is Undrawn Balance ?

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4. State whether following statements are True or False.
   i) Generally the amount of packing credit will not exceed FOB value of the export goods or domestic value whichever is less.
   ii) Banks are authorised to extend packing credit for a further period of 180 days.
   iii) Pre-shipment credit in foreign currency can not be granted on exports to Asian Clearing Union countries.
   iv) Whenever exporter wants, he can avail the post-shipment advance against bills sent on collection basis.
   v) Advances against the export incentives are given at the pre-shipment stage as well as the post-shipment stage.

8.5 EXPORTS UNDER DEFERRED PAYMENTS

You have learnt that all export proceeds must be surrendered to an authorised dealer within 180 days from the date of shipment. Exporters are required to obtain permission from the Reserve Bank through authorised dealers in the event of non-realisation of export proceeds within the prescribed period. However, realising the special needs of exports of engineering goods and projects, Reserve Bank has formulated special schemes permitting deferred credit arrangements. This will enable realisation of export proceeds over a period exceeding six months. Hence, contracts for export of goods and services against payment to be secured partly or fully beyond 180 days are treated as deferred payment exports. The credit extended is termed as deferred payment term credit.

For financing under deferred credit system a single point approval mechanism within a three-tier system operates.

This system includes:

i) Commercial banks who are authorised dealers in foreign exchange in India, can provide in principle clearance for contracts valued upto Rs.25 crores. They can avail refinance from EXIM bank.
ii) EXIM bank is empowered to give clearances for contracts of value of above Rs.25 crores and upto Rs.100 crores.
iii) A working group considers proposals of contracts of value beyond Rs.100 crores. The working group consists of representatives of all the above institutions to provide single window clearance.

Deferred credit facility is normally allowed only for export of engineering goods, turnkey projects involving rendering of services like designing, civil construction and erection and commissioning of plant or factory alongwith supply of machinery, equipment and materials. Project exports eligible for export finance are as follows:

i) Turnkey Projects: These projects involve supply of equipment alongwith related services like design, detailed engineering, civil construction, erection and commissioning of plants, etc.
ii) Construction projects involve civil works, steel structural works as well as associated supply of construction materials and equipment.
iii) Technical and consultancy service contracts involve provision of personnel, furnishing of knowhow, skills, operation and maintenance services and management contracts.

These services include:
a) Engineering services contracts involve supply of services such as design, erection, commissioning or supervision of erection and commissioning.
b) Consultancy services contracts involve preparation of feasibility studies, project reports, preparation of designs and advice to the project authority on specifications for plant and equipments.

8.6 DEFERRED CREDIT FACILITIES

Export of goods on deferred payment terms can be financed under suppliers credit or Buyer's credit. Let us first understand what they are.

Supplier's Credit: The exporter extends credit directly to the overseas buyer and seeks refinance from commercial banks/EXIM bank .

Buyer's Credit: It is a loan extended by a financial institutions or a consortium of financial institutions to the overseas buyer for financing a particular contract. Let us discuss Buyer's Credit in detail.

Under this scheme, credit is granted by EXIM Bank jointly with an authorised dealer to foreign buyers in connection with export of capital goods and turnkey projects from India. The exporters are paid out of the buyer's credit on a non-recourse basis on their complying with the terms of the export contracts to be financed under the scheme. Before the exporter enters into any contract providing for credit terms to be financed under buyer's credit scheme, they should have detailed discussion with the bankers. While considering proposals under the scheme, the following factors are taken into account by EXIM Bank:

i) competence and capability of Indian exporters in complying with the proposed commercial terms of the contract;
ii) justifiability of the contract on commercial considerations;
iii) economic viability of the overseas projects concerned of the importer and general economic conditions of his country;
iv) credit worthiness of foreign borrower.

Reserve Bank's permission is also required for the purpose of granting credit under the scheme since payment will have to be made to the exporter on behalf of non-resident buyer. Application to the Reserve Bank should be made by the authorised dealer in Form DPX 6 for the purpose.

8.7 ROLE OF EXPORT IMPORT BANK OF INDIA

Export-Import Bank of India was set up in 1982, for the purpose of financing, facilitating and promoting foreign trade of India. It is the principal financial institution in the country for co-ordinating working of institutions engaged in financing exports and imports. The major functions of EXIM bank are as follows:

Finance: The present focus of Exim Bank is on export finance. The Bank finances export of Indian machinery, manufactured goods, consultancy and technology services on deferred payment terms. Exim Bank finance is also available at export production stages.

Services: EXIM Bank provides information, advisory services to enable exporters to evaluate the international risks, export opportunities and competitiveness.

Research & Analysis: Research & Analysis carried out on specific industry subsectors with export ~~potential~~ potential, and international trade related subjects are provided to exporters. Look at Table 7.1 where details of various programmes offered by the EXIM Bank have been shown.

Table 7.1

Lending and Service Programmes of EXIM Bank

Programme	Use
For Indian Entities	
Export (Supplier's) Credit	Enables Indian exporters to extend term credit to overseas importers, of eligible Indian goods.
Financing of Rupee Expenditure for Project Export Contracts	Enables companies to meet cash flow deficits of projects being executed overseas on cash payment terms.
Finance for Consultancy and Technology Services	Enables Indian exporters of consultancy and technology services to extend term credit to overseas importers.
Pre-shipment Credit	Enables Indian exporters to buy raw material and other inputs for export contracts involving cycle time exceeding six months.
Finance for Deemed Exports	Enables Indian Companies to meet cash flow deficits of con tracts secured in India and financed by multilateral funding agencies.
Foreign Currency Pre-shipment Credit	Enables eligible exporters to access finance for import of raw materials and other inputs needed for export production.
Finance for EOU's & Units in EPZs	Enables Indian companies to acquire indigenous and imported machinery and other assets for export production.
Foreign Currency Lines of Credit for Imports	Enables eligible export-oriented units to acquire imported machinery for export production.
Export Vendor Development Finance	Enables vendors of export-oriented units to acquire plant & machinery and other assets for increasing export capability.
Export Product Development Finance	Enables Indian firms undertake product development, R & D for exports.
Overseas Investment Finance	Enables Indian promoters to finance equity contribution in joint ventures/WOS set up abroad.
Software Training Institutes	Enables setting up of institutes for software training.
Export Marketing Finance	Enables exporters to implement market development programmes and finances productive capabilities through loan financing.
Production Equipment Finance	Enables eligible export-oriented units to acquire equipment.

Underwriting	Enables Indian exporters to raise finance from capital markets through public/rights issues of equity shares/debentures with the backing of EXIM Bank's underwriting commitment.
Forfaiting	Enables Indian exporter to convert credit sale to cash sale on without recourse basis.
Guarantee Facility	Enables Indian companies to provide requisite guarantees to facilitate execution of export contracts and import transactions.
L/C Confirmation	Confirmation of L/Cs covering import of capital goods.
Project Preparatory Services Overseas	Enables Indian consultancy firms undertake project preparatory studies in developing countries by grant/loan financing.
Business Advisory & Technical Assistance Services Overseas	Enables Indian consultancy firms undertake specific assignments in select countries through grant financing.
Cooperation Arrangement with African Management Services Co. (AMSCO) Amsterdam	Enables Indian consultants secure assignments in various projects that are managed by AMSCO in different parts of Sub-Saharan Africa, through grant financing.
Africa Enterprise Fund	Enables Indian Consultancy Firms to undertake specific assignments to assist small and medium entrepreneurs in Sub-Saharan Africa.
Africa Project Development Facility	Enables Indian consultancy firms undertake specific assignments in Sub-Saharan Africa through grant financing.
EC Investment Partners Facility	Enables setting up of joint ventures in India between Indian companies and enterprises in the European Community.

For Commercial Banks

Refinance of Export (Supplier's) Credit	Enables banks to offer credit to Indian exporters of eligible goods, who extend term credit over 180 days to importers overseas.
Small Scale Industry (SSI) Export Bills Rediscounting	Enables banks to rediscount export bills of their SSI customers with usance not exceeding 90 days.
Relending Facility	Enables banks overseas to make available term finance to their clients for import of eligible Indian goods.
Refinance of Term Loans to EOUs	Enables banks to offer credit to eligible export-oriented units to acquire indigenous and imported machinery and other assets for export production.
Bulk Import Finance	Enables banks to offer finance to importers for bulk import of consumable inputs.

Guarantee-cum Refinance Supplier's Credit	Enables banks to protect their own cash flow as also its exporter client's cash flow on account of default by overseas buyer. Protects the Bank by not treating the Advance as a Non-performing Asset for provisioning purposes.
For Overseas Entities	
Lines of Credit	Enables overseas financial institutions, foreign governments, their agencies to onlend term loans to finance import of eligible goods from India.
Buyer's Credit	Enables overseas buyer to import eligible goods from India on deferred credit terms.

8.8 RECENT DEVELOPMENTS IN EXPORT FINANCING

As stated earlier, offer of attractive credit terms is a crucial factor in winning export contracts. Hence, financial institutions are offering several innovative financial services to exporters. Some of these services are discussed below:

Factoring: It is an attractive way of providing export finance to exporters. In this system factor bears the complete credit risk. Who is a factor ? A factor is a special type of agent who, depending upon the type of agreement, offers a variety of services. These services include coverage of credit risk, collection of export proceeds, maintenance of accounts receivables and advance of funds. Purchase of receivables of its clients without recourse is the most important service of the factor. A big advantage to the exporter is that it is without recourse financing. This means that the risk of non-payment by the importer is to be borne entirely by the factor.

In India, International Export Factoring services on with recourse basis have been approved by the RBI. It provides a new dimension to management of export receivables. SBI Factors and Commercial Services Pvt. Ltd., Bombay have been permitted to provide International Export Factoring. In this system, the exporter enters into an export factoring agreement with exporter's factor. The exporters ship goods to approved foreign buyers. Each invoice is made payable to a specific factor in the importer's country. Copies of invoices and shipping documents are sent to the Importers factor. Exporter's factor will make prepayment to the export against approved export receivables. On receipt of payments from the importer on due date of invoice, importer's factor remits the fund to the exporter's factor. The exporter's factor pays to the exporter after deducting the amount of prepayments.

Forfaiting: Forfaiting refers to the non-recourse discounting of export receivables. It is a mechanism of financing exports that involves less risks and enhances international competitiveness. It converts a credit sale into cash sale for an exporter. In this system forfaiting agency discounts international trade receivables of the exporter. The forfaiter pays the exporter in cash and undertakes the risk associated with the export deal. The exporter surrenders, without recourse to him, his rights to claim for payment on goods delivered to an importer.

All exports of capital goods and other goods made on medium to long term credit are eligible to be financed through forfaiting. In India, EXIM bank play an intermediary role between the Indian exporter and the overseas forfaiting agency. The exporter approaches EXIM bank for forfaiting transaction. EXIM bank obtains details from overseas agencies related to the transaction. The bank receives bills of exchange or promissory notes from the exporter and sends them to the forfaiter for discounting. Subsequently, the bank arranges for the discounted proceeds to be remitted to the Indian exporter. The bank issues appropriate certificates to enable Indian exporters to remit commitment fees and other charges. According to the Monetary Policy (announced on October 22, 1997), RBI has allowed Authorised dealers to undertake forfaiting of medium term export receivables.

Check Your Progress B

1. What do you mean by buyer's credit ?

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2. What is forfaiting ?

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3. What do you mean by relending facility of EXIM Bank ?

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4. State whether following statements are True of False.
   i) Contracts for export of goods and services against payment to be secured partly or fully beyond 90 days are treated as deferred payment exports.
   ii) Under deferred credit system, EXIM bank is empowered to give clearances for contracts of value of above Rs.200 crores.
   iii) Forfaiting is a non-recourse discounting of export receivables.
   iv) Under suppliers credit facility, the exporter extends credit directly to the overseas buyer and seeks refinance from Commercial/EXIM bank.
   v) Commercial banks have been permitted to provide International Export factoring services

8.9 LET US SUM UP

Export finance is provided at the pre-shipment and post-shipment stages. In India, the export credit facilities are provided largely by commercial banks. RBI and EXIM banks offer refinance. EXIM bank, in certain cases, participates with commercial banks in extending medium and long-term credit to exporters. In India, pre-shipment finance is offered in the form of (i) packing credit (ii) Advance against incentives and (iii) Pre-shipment Credit in Foreign Currency (PCFC). Packing credit facilities are provided to the exporters for making necessary arrangements for executing export contracts. The basic purpose of packing credit is to enable the eligible exporters to procure, process, manufacture or store the goods meant for export. It is extended on the strength of either the letter of credit or confirmed export contracts. Generally the amount of packing credit does not exceed FOB value of the export goods or their domestic value whichever is less. When the value of the materials to be procured for export is more than FOB value of the contract, the exporters may get the credit against the receivables export incentives. The pre-shipment finance may also be available in foreign currency.

The credit provided by a bank to an exporter after the shipment of goods is referred to the post-shipment credit. The quantum of credit depends on export sales and receivables. Various types of post-shipment credit are : (i) Negotiation of Export Documents under Letters of Credit (ii) Purchase/Discount of Foreign Bills (iii) Advance against Bills sent on Collection Basis (iv) Advance against Goods sent on Consignment Basis (v) Advance against Export Incentives (vi) Advance against Undrawn Balances (vii) Advance against Retention Money (viii) Post-shipment Export Credit Guarantee and Export Finance Guarantee and (ix) Post-shipment Credit in Foreign Currency. Deferred Credit facilities are offered for export of engineering goods, turnkey projects and consultancy projects.

Export Import Bank plays an important role in promoting exports from India through its various financing schemes. It refinances to commercial banks in respect of credit extended by them to exporter, gives loans to Indian companies for financing exports under deferred payment, provides lines of credit and buyer's credit to overseas entities. The bank also advises Indian exporters on matters pertaining to terms of payment, export financing, etc. Factoring and forfaiting are the recent developments in export financing.

8.10 KEY WORDS

Bill of Exchange: The drawing of a Bill of Exchange (frequently referred to as a draft) is the method most commonly used by exporters as a means of obtaining payment from buyers for goods shipped.

Consignment Exports: Where the exporter ships the goods abroad, usually to his agent, on an understanding that goods will be sold and sale proceeds after deducting agent's commission and other selling expenses will be remitted to him.

Deferred Payment Exports: A situation, where the exporter agrees to receive the proceeds after a period extending beyond six months.

Foreign Exchange Dealers' Association of India (FEDAI): Association of commercial banks possessing Reserve Bank licences for dealing in foreign currencies.

Letter of Credit: An arrangement whereby a bank (the issuing or opening bank) guarantees on behalf of its customer (the applicant or importer) to make payment to the beneficiary or exporter upon presentation of documents specified in the credit.

LIBOR : refers to the arithmetic average of the rates of which six major banks in London are willing to pay/to borrow dollars at certain time during the morning.

Sight Bill: The bill, requires the drawee, to whom it is addressed, to make payment immediately on presentation.

Usance Bill: The bill which has a usance period, usually of 30, 60, 90, 120 or 180 days, required the drawee to pay the bill after the expire of usance period.

8.11 ANSWERS TO CHECK YOUR PROGRESS

A. 4 (i) True (ii) False (iii) False (iv) False (v) True
B. 4 (i) False (ii) False (iii) True (iv) True (v) False

8.12 TERMINAL QUESTIONS

1) What is the purpose of extending packing credit to exporters ? Explain the procedures of packing credit.
2) What do you mean by pre-shipment finance ? Enumerate the methods of pre-shipment finance. Describe the procedure of pre-shipment credit in Foreign Currency.
3) What is post-shipment finance ? Explain various methods of post-shipment finance.
4) Explain the procedures of export under Deferred payments.
5) Describe the role of Export Import Bank in India.
6) Write short notes on:
   i) Pre-shipment credit in foreign currency
   ii) Post-shipment credit in foreign currency
   iii) Buyer's Credit
   iv) Factoring
   v) Forfaiting

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.