UNIT 9 EXPORT CREDIT INSURANCE

Structure

9.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of credit risk
- describe various types of policies issued by ECGC
- explain the principles of ECGC operation
- describe the procedure of taking a policy
- explain the procedure for making a claim
- explain the financial guarantees provided by ECGC.

9.1 INTRODUCTION

Export business has become very complex and highly risky. Insolvency rate is on the increase. Balance of payment difficulties have severely affected the capacity of many countries to pay the import price. In such a high risk situation, export credit insurance is very much helpful for the exporters and the banks who finance the export transactions. In this unit, you will learn various types of covers issued by ECGC and basic principles of its operation. You will also be acquainted with the procedure for making a claim and financial guarantees provided to banks.

9.2 MEANING OF CREDIT RISK

Competition in foreign markets is more keen than in the domestic market. Overseas customers are sought after by exporters from many countries. Competition is getting keener still due to an all round effort on the part of all countries to increase their exports. Indian exporters have to compete with exporters from other countries not only in respect of quality, price, delivery schedules, etc., but also in respect of payment terms. Their success would depend upon the

ability to offer competitive terms of credit to the foreign buyer's terms of credit on par with those offered by exporters from competing countries. Risks are inherent in all credit transactions but more so, in export transactions. The fact that the buyer may not pay either due to insolvency or for any other reason exposes the exporter to the credit risk. Credit risk may arise even in cases where the buyer's credit standing has been thoroughly investigated. Too cautious an attitude in evaluating buyers may result in loss of hand to get business opportunities. Hence, credit risk is unavoidable specially in export business.

Credit risk is greater in export transactions because reliable information about foreign buyers is difficult to obtain and hence, it is difficult to evaluate their credit worthiness. Credit risk has assumed large proportions today not only because the volume of export transactions has become larger but also because far-reaching political and economic changes that are sweeping the world. An outbreak of war, civil war, coup or an insurrection may block or delay the payment for goods exported. Balance of payment difficulties may lead to transfer delays. And all this is possible even when the buyer is fully in a position to pay. In addition, one has to contend with the possibilities of the insolvency or protected default of the buyers. In recent years, there has been a significant increase in insolvencies and business failures even in many developed countries. In such a high risk situation export credit insurance can be of immense help to (i) exporters and (ii) the banks who provide finance for the export transactions.

9.3 ORGANISATION COVERING CREDIT RISK

There are more than 40 organisations providing cover for credit risk, the worldover. They are all members of a union International Union of Credit and investment Insurers' also popularly known as BERNE UNION. In most countries, these organisations are government controlled though a few of them are privately owned. In India, we have the Export Credit Guarantee Corporation of India Limited to cover export credit risks. This is a Government of India enterprise.

In the very first decade of our Independence, the Government realised the importance of promoting exports. A number of organisations were set up for this purpose. It was felt that one of the serious handicaps faced by Indian exporters is the risk that they might not get paid for the shipments made by them. In fact, it acted as a serious deterrent to our export efforts.

It was in July, 1957 that the Government of India set up the Export Risk Insurance Corporation of India (ERIC) with its Head Office in Bombay. In course of time, the ERIC started providing various guarantees to bankers providing export finance. It was therefore, decided in 1964 to rename the Corporation as 'Export Credit and Guarantee Corporation Limited'. To bring the Indian identity into sharper focus, the corporation's name was once again changed in 1983 to 'Export Credit Guarantee Corporation of India Limited', (ECGC). The ECGC is a company wholly owned by the Government of India. It functions under the administrative control of the Ministry of Commerce and is managed by a Board of Directors representing Government, Banking, Insurance, Trade and Industry, etc.

9.4 TYPES OF COVER ISSUED BY ECGC

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

i) **Standard policies** issued to exporters to protect them against payment risks involved in exports on short- term credit;

ii) **Specific Policies** designed to protect Indian firm against payment risk involved in (a) exports on deferred terms of payment (b) services rendered to foreign parties and (c) construction works and turnkey projects undertaken abroad;

iii) **Financial Guarantees** issued to banks in India to protect them from risks of loss involved in their extending financial support to exporters at the pre-shipment as well as post-shipment stages; and

iv) **Special Schemes,** viz., Transfer Guarantee meant to protect banks which add confirmation to Letters of Credit opened by foreign banks, Insurance cover for Buyer's Credit, Line of Credit, Overseas Investment Insurance and Exchange Fluctuation Risk Insurance.

9.4.1 Standard Policies

The ECGC has designed four types of Standard policies to provide cover for shipment made on short-term credit.

i) **Shipments (Comprehensive Risks) Policy** — to cover both commercial and political risks from the date of shipment.

ii) **Shipments (Political risks) policy** — to cover only political risks from the date of shipment.

iii) **Contracts (Comprehensive Risks) Policy** — to cover both commercial and political risks from the date of contract.

iv) **Contracts (Political Risks) Policy** — to cover only political risks from the date of contract.

The shipments (Comprehensive Risks) Policy is the one ideally suited to cover risks in respect of goods exported on short-term credit. This policy covers both commercial and political risks from the date of shipment. Risk of pre-shipment losses due to frustration of export contracts is nil or very low since goods exported on short- term credit are raw materials, primary goods, consumer goods or consumer durables which can be resold easily. Contract policies, which cover risk from the date of contract, are issued only in special cases when goods to be exported are manufactured to non-standard specifications cf a buyer.

Risks covered under standard policies: Risks covered under standard policies fall into the following two categories.

1) **Commercial Risks:** This includes:

   i) the insolvency of the buyer

   ii) the buyer's protracted default to pay (within 4 months of due date) for goods accepted by him; and

   iii) in some special circumstances specified in the policy, buyer's failure to accept the goods, when such non- acceptance is not due to exporter's action.

2) **Political Risks:** This includes:

   i) imposition of restrictions on remittances by the Government in the buyer's country or any government action which may block or delay payment to the exporter

   ii) war, revolution or civil disturbances in the buyer's country

   iii) new import licensing restrictions or cancellation of a valid import licence in the buyer's country, after the date of shipment or contract as applicable

   iv) cancellation of export licence or imposition of new export licensing restrictions in India after effective date of contract (under contracts policy)

   v) Payment of additional handling, transport or insurance charges occasioned by interruption or diversion of voyage which cannot be recovered from the buyer; and

   vi) Any other cause of loss occurring outside India, not normally insured by general insurers, and beyond the control of the exporter and / or the buyer.

In cases where the buyer happens to be a foreign Government or a Government department and it refuses to pay, the default will fall under the category of political risks.

Risks not covered: The standard policies do not cover losses due to the following risks.:

i) Commercial disputes including quality disputes raised by the buyer, unless the exporter obtains a decree from a competent court of law in the buyer's country in his favour

ii) Causes inherent in the nature of the goods

iii) Buyer's failure to obtain necessary import or exchange authorisation from authorities in his country

iv) Insolvency or default of any agent of the exporter or of the collecting bank

v) Loss or damage to goods which can be covered by general insurers

vi) Failure of the exporter to fulfil the terms of the export contract or negligence on his part

vii) Exchange rate fluctuation

The ECGC also does not cover risks which can normally be insured with commercial insurers.

An exporter may either take a comprehensive risks policy covering both political and commercial risks or secure himself against political risks only, depending upon his requirements. It must, however, be noted that ECGC does not issue policies to cover commercial risks only.

When to take a Contracts Policy: You have learnt that in most cases shipments (Comprehensive Risks) policy will meet the requirements of most exporters, it would be desirable to take contracts policy for two reasons. (i) If goods are manufactured to a specific buyer's requirements, they may not be easily solved to alternate buyers in case he decides to cancel the contract, and (ii) the risk of loss due to Government ban on export of goods after the date of the contract is covered only in a contracts policy.

Consignment Exports

Exports on consignment basis may be covered under shipments (Comprehensive Risks) policy by a suitable endorsement thereon. While political risks are covered from the date of shipment till the date of receipt of payment in India, commercial risks are covered only after the Agent/ Stockholder submits the 'Accounts Sales' to the exporter. The risk of the Agent / Stockholder not returning the unsold goods is not covered under the policy.

Check Your Progress A

1) What do you mean by credit risk ?

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2) List various types of standard policies issued by ECGC.

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3) State whether the following statements are **True of False.**

i) Credit risk is the same whether one sells in domestic market or in foreign market.

ii) An exporter can take ECGC policies to cover commercial risk only.

iii) ECGC does not cover losses due to insolvency of the collecting bank.

iv) ECGC does not cover risks which can normally be insured with commercial insurers.

v) The Shipments (Comprehensive Risks) policy is not suitable to cover risks in respect of goods exported on short-term credit.

9.4.2 Specific Policies

Contracts for export of capital goods or projects for construction works and for rendering services abroad are insured by ECGC on a case to case case basis under specific policies. Special mention may be made of the services policy to protect Indian firms against payment for their services. At the same time, the construction works policy aims to cover all payments that fall due to a contractor under a composite contract for execution of civil engineering works which may involve provision of services as well as supply of materials.

Specific Policy for Supply Contracts: This policy may take any of the following four forms:

i) Specific shipments (Comprehensive Risks) policy to cover both commercial and political risks at the post- shipment stage.

ii) Specific Shipments (Political Risks) Policy to cover only political risks at the post-shipment stage in cases where the buyer is an overseas Government or payments are guaranteed by a government or by banks, or are made to associates.

iii) Specific Contracts (Comprehensive Risks) Policy.

iv) Specific Contracts (Political Risks) Policy.

Contracts policy provides cover from the date of contract. Losses that may be sustained by an exporter at pre-shipment stage due to frustration on contract are covered under this policy in addition to cover risks provided by the shipments policy.

Insurance cover for buyers credit and links of credit: Buyers credit is a loan extended by a financial institution, or a consortium of financial institutions to the buyer for financing a particular export contract. In this credit system, a loan is extended to government or financial institutions in the importing country for financing import of specified items from the lending country. ECGC has evolved scheme to protect financial institutions in India which extend these types of credit for financing exports from India.

9.4.3 Services Policy

When Indian firms render services to foreign parties, they would be exposed to payment risks similar to those involved in export of goods. Services policy offer protection to Indian firms against such payment risks. The policy has been designed broadly on the lines of ECGC insurance policies covering export of goods, and is issued to cover specific transactions.

Four types of policies are available:

i) Specific Services Contract (Comprehensive Risks) policy to cover commercial as well as political risks;

ii) Specific Services Contract (Political Risks) policy to cover political risks only.

iii) Whole turnover Services (Comprehensive Policy) and

iv) Whole Turnover Services (Political Risks) Policy

9.4.4 Construction Works Policy

Construction Works Policy has been designed to Indian contractor who executes a civil construction Job abroad. This policy protects the contractor from 85% of the losses that may be sustained by him due to various risks.

9.5 BASIC PRINCIPLES OF ECGC OPERATION

There are two basic principles on which ECGC works:

i) **Spread of Risk:** An exporter is required to insure all the shipments that may be made by him during the next two years. To avoid undue difficulty to the exporters, exceptions have been made in respect of transactions made against (i) advance payment or (ii) irrevocable letters of credit confirmed by banks in India. Shipments made to agents and associates may also be excluded. Where the exporter deals in different types of goods, he may exclude those items which are not of an allied nature. The basic idea is that the exporter is not allowed to pick and choose bad risks only for insurance. This is also necessary to reduce Premia in general. It is open for the exporter to take political cover for transactions under this para.

ii) **An exporter is a co-insurer:** ECGC normally pays 90 per cent of the losses on account of political or commercial risks. In the event of loss due to repudiation of contractual obligations by the buyer, ECGC indemnifies the exporter upto 90 per cent of the loss. In this situation, a final and enforceable decree against the overseas buyer is obtained in a competent court of law in the buyer's country. The Corporation, at its discretion, may waive such legal action where it is satisfied that such legal action is not worthwhile. In such cases, losses are indemnified upto 90 per cent.

The insured will have to bear the rest of the loss. This is necessary to ensure that (i) the exporter also takes necessary precaution in selecting the parties to which he may decide to export, (ii) he may not overextend credit and (iii) he may take all possible care to minimise the risk.

In addition to these two basic principles, ECGC being in insurance business, also follows three basic principles of insurance. They are:

i) ECGC contracts are contracts of good faith which means that non-disclosure of a material fact will render the contract void. In other words, the exporter is bound to disclose every material fact within his knowledge to the ECGC which may adversely affect the ECGC. Again, any material alteration of the risk arising between the date of the proposal and the issue of the policy must be disclosed to the ECGC.

ii) The insured is duty bound to minimise the loss. He should conduct his business with ordinary prudence and diligence and act as an uninsured. The action that needs to be taken depends upon the facts and circumstances of the case.

iii) Under the principles of subrogation, ECGC steps into the shoes of the exporter. If recoveries are made after the payment of the claim by ECGC, they are shared with the ECGC in the same proportion in which the loss was borne.

9.6 PROCEDURE FOR TAKING A POLICY

An intending exporter should fill in a proposal form (no. 121) available with all ECGC offices and submit it to the nearest office. After examining the proposal, ECGC would send him an acceptance letter stating the terms of its cover and premium rates. The policy will be issued after the exporter conveys his consent to the premium rates and pays a non-refundable policy fee.

The premium rates are closely related to the risks involved and depend upon (i) length of the credit, (ii) terms of payment, (iii) credit worthiness of the buyer and his country and (iv) the past record of the exporter.

ECGC normally fixes a maximum limit of its liability for shipments in each of the policy years. It is therefore, advisable for exporters to estimate the maximum outstanding payment due from overseas buyers at any time during the policy period and to obtain the policy with maximum liability for such value. The maximum liability fixed under the policy can be enhanced subsequently, if necessary.

Obligations of the Policy Holders: Following are the obligations of the policy holders:

i) **Declaration of shipments:** An exporter who has taken a shipments policy has to send, by the fifteenth of each month, a declaration of shipments made in the previous month, in the prescribed form (No. 203). An exporter who obtains a contracts policy has to send a declaration of all outstanding contracts immediately after the policy is issued. Thereafter he shall send a monthly declaration of contracts concluded and shipments made by him during the previous month. Premium has to be paid along with the declaration at rates shown in the schedule attached to the policy.

ii) **Fixation of credit limit on each buyer:** Commercial risks are covered by ECGC subject to approval of a credit limit on each buyer. Credit limit is the limit upto which claim can be paid under the policy for losses on account of commercial risks. As commercial risks are not covered in the absence of a credit limit, exporters would be well advised to apply to ECGC for approval of credit limit on buyer in the prescribed form (No. 144) before making shipment. If complete information regarding the buyer and his banker is given in the credit limit application, it will facilitate receipt of credit information expeditiously. ECGC obtains credit information on overseas buyers through banks and credit information agencies. On the basis of credit information and its own experience, ECGC fixes suitable credit limits on overseas buyers.

   In case an exporter has already obtained a credit report on the buyer or is in possession of other information that can help ECGC in fixing credit limit, the same may be furnished along with credit limit application to facilitate quick decision. If the exporter needs an enhancement in limit, he may apply in the prescribed form (No. 144A) giving his past experience with the buyer.

iii) **Reporting Defaults:** In the event of non-payment of any bill, policy holders are required to take prompt and effective steps to prevent or minimise loss. A monthly declaration of all bills which remain unpaid for more than 30 days should be submitted to ECGC in the prescribed form (No. 205) indicating action taken in each case. Granting extension of time for payment, converting bills from D.P to D. A. terms or resale of unaccepted goods at a lower price require prior approval of ECGC.

9.7 PROCEDURE FOR MAKING A CLAIM

A claim will arise when any of the risks insured under the policy materialises. If an overseas buyer goes insolvent, the exporter becomes eligible for a claim one month after his loss is admitted to rank against the insolvent's estate or after four months for the due date, whichever is earlier. In case of protracted default, claim is payable after four months from the due date. Claims in respect of additional handling, transport or insurance charges incurred by the exporter because of interruption or diversion of voyage outside India are payable after proof of loss is furnished. In all other cases, claim is payable after four months from the date of the event causing loss.

However, in case of exports to countries where long transfer delays are experienced, ECGC may extend the waiting period and claims for such shipments are payable after the expiry of such extended period. Sometimes the buyer does not accept goods or pay for them because of differences over fulfilment of the terms of contract by the exporter, counter claims or setoff. In such cases, ECGC considers claims after the dispute between the parties is resolved and the amount payable is established by obtaining a decree in a court of law in the country of buyer. This condition is waived in cases where the Corporation is satisfied that the exporter is not at fault and that no useful purpose would be served by proceeding against the buyer.

9.7.1 Procedural Formalities

The ECGC has three types of claim forms: (I) Form No. 501 for claims arising due to non-payment for goods accepted by the buyer, (ii) Form No. 502 for claims arising because of the non-acceptance of goods / documents by the buyer, and (iii) Form No. 503 for claims on account of delay in transfer of funds to India. Claims due to the above causes should be filed in the respective prescribed form. Other types of claims can be filed by means of a letter, giving full particulars of the cause and extent of loss. The claims have to be submitted to the ECGC office that issued the policy. Again, the claim forms should be sent through the bank which handled the export bill concerned. **No claim will be entertained by the ECGC if it is not filed within a period of 24 months from the due date of the concerned bills.**

9.7.2 Documents in Support of Claims

Every claim has to be supported by documentary evidence. Important documents that should accompany the claim forms are the following:

a) Certified copy of the export order

b) Certified copies of invoices

c) Certified copies of bills of lading

d) Copies of the correspondence with the buyer

e) In case of insolvency of the buyer, copy of the letter from the official receiver / liquidator admitting the claim.

f) In case of protracted default, (i) protest note, (ii) original of unpaid bills, (iii) advice of non-payment received from the bank, and (iv) copy of the plaintiff if a suit has been filed.

g) In case of transfer delays, certified copy of payment advice received from the collecting banker indicating the date on which payment was made by the buyer in local currency. This should also certify that all exchange control formalities necessary for transfer of funds to India have been complied with by the buyer.

All claims are paid in Indian rupees through the Bank which handled the bills concerned.

9.8 SMALL EXPORTER'S POLICY

The small exporter's policy is basically the standard policy. It incorporates certain improvement in terms of cover, in order to encourage small exporters to obtain and operate the policy. The main features of this policy are:

i) The policy is issued to exporters whose anticipated export turnover for the next 12 months does not exceed Rs.25 lakhs.

ii) The policy is issued for a period of 12 months.

iii) Shipments need to be declared only twice. The first six months shipment is declared in the seventh month and the last six months shipment is declared in the 13th months.

iv) The exporters are required to submit monthly declarations of all payments remaining overdue by more than 60 days from the due date.

v) ECGC will pay claims to the extent of 95% where the loss is due to commercial risks and 100% if the loss is caused by any of the political risks.

vi) The waiting period of claims has been reduced to 2 months.

vii) In order to deal with the buyers, exporters have been permitted to change in terms of payment or extension in credit period.

viii) In case of resale of unaccepted goods, the corporation may consider reasonable amount for payment of claims.

ix) The corporation may also consider the claims due to loss or damage to goods.

9.9 FINANCIAL GUARANTEES

Exporters require adequate financial support from banks to carry out their export contracts. ECGC's guarantees protect the banks from losses on account of their lendings to exporters. These guarantees have been designed to encourage banks to give adequate credit and other facilities for exports, both at pre- shipment and post-shipment stages, on a liberal basis.

Six guarantees have been evolved for the purpose:

1) Packing Credit Guarantee
2) Export Production Finance Guarantee
3) Post-Shipment Export Credit Guarantee
4) Export Finance Guarantee
5) Export Performance Guarantee
6) Export Finance (Overseas Lending) Guarantee

These guarantees give protection to banks against losses due to non-payment by exporters on account of their insolvency or default. ECGC pays three- fourths of the loss in the case of Post-Shipment Export Credit Guarantee, Export Finance Guarantee, Export Performance Guarantee and Export Finance (Overseas Lending) Guarantee and two-thirds of the loss in others.

The Corporation agrees to pay higher percentage of loss to banks which offer to cover all their pre- shipment advances under a whole turnover Packing Credit Guarantee. Similarly, a higher percentage of cover is offered under post-shipment export credit guarantee if the bank agrees to cover all its post-shipment advances on wholeturnover basis.

In the case of export performance Guarantee and export finance (Overseas Lending) Guarantee, ECGC provides higher cover of 90 per cent of the loss on payment of proportionately higher premium.

Check Your Progress B

1) What are the two basic principles of ECGC operation ?

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2) Name the four important documents which are to be attached with the claim forms of ECGC.

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3) State whether the following statements are **True** or **False.**

i) The ECGC bears 100 per cent of loss suffered by the exporter.

ii) ECGC contract is a contract of good faith.

iii) The exporter is duty bound to minimise the loss.

iv) ECGC normally fixes a minimum limit of its liability for shipments in each of the policy years.

v) ECGC does not cover credit risk arising from export of capital goods.

4) Fill in the blanks with appropriate words.

i) A claim will not be entertained by the ECGC if it is not filed within a period of ....

ii) Commercial risks are covered by ECGC subject to approval of a ....on each buyer.

iii) Claims are paid by ECGC in ....currency through the bank which handled the bills concerned.

iv) ECGC guarantees protect the...........from losses on account of their lendings to exporters.

9.10 LET US SUM UP

Export business has become very competitive and risky. Credit risk is greater in export transactions because reliable information about foreign buyers is difficult to obtain and hence it is difficult to evaluate their credit worthiness. Adverse balance of payment has severely affected the country's capacity to pay the import price. Civil war or other external happenings may also delay the payment of the exported goods. Moreover, there has been a significant increase in insolvency of the buyers. In such a high risk situation, export credit insurance can be of immense help to exporters and the banks who provide finance for the export business.

Export Credit Guarantee Corporation of India Limited (ECGC) is a company wholly owned by the government of India. It functions under the administrative control of the Ministry of Commerce and is managed by a Board of Directors representing Government, Banking, Insurance, Trade and Industry, etc.

The covers issued by ECGC can be broadly divided into four groups. This includes: Standard Policies, Specific Policies, Financial Guarantee and Special Schemes. There are four types of standard policies. They are shipments (Comprehensive Risks) Policy, Shipments (Political Risks) Policy, Contracts (Comprehensive Risks) Policy and Contracts (Political Risks) Policy. The Shipment (Comprehensive Risks) Policy is ideally suited to cover risks in respect of goods exported on short- terms credit. Specific policies include: Specific Shipments (Comprehensive Risks) Policy, Specific Shipments (Political Risks) Policy, Specific Contracts (Comprehensive Risks) Policy and Specific Contracts (Political Risks) Policy. Services Policy offer protection to Indian firms against the services rendered to foreign parties. This includes: Specific Services Contract (Comprehensive Risks) Policy, and specific services contracts (Political Risks) policy, whole turnover (Comprehensive Policy) and whole turnover Services (Political Risks) Policy. Construction Policy has been designed to Indian Contractor who executes a civil construction Job abroad.

The basic principles of ECGC operation includes (i) spread of risks and (ii) an exporter is a co-insurer. In order to get a policy, the exporter is expected to submit a proposal form alongwith required fee. The obligations of the policy holder are: (i) declaration of shipments (ii) fixation of credit limit on each buyer, and (iii) reporting defaults. Claims are to be filed in the prescribed forms alongwith the required documents.

Important documents to be attached with the claims are (i) certified copy of the export order (ii) certified copies of invoices (iii) certified copies of bills of lading (iv) copies of the correspondence with the buyer. All claims are paid in Indian rupees through the bank which handled the bills concerned. Small Exporters Policy has been introduced to encourage small exporters.

The ECGC provides guarantees to protect the banks from losses on account of their lendings to exporters. Six guarantees have been evolved for this purpose. These include (i) Packing Credit Guarantee, (ii) Export Production Finance Guarantee, (iii) Post- Shipment Export Credit Guarantee, (iv) Export Finance Guarantee, v) Export Performance Guarantee, (vi) Export Finance (Overseas Lending) Guarantee.

9.11 KEY WORDS

Buyer's Credit: A loan extended by a financial institution or a consortium of financial institutions to the buyer for financing a particular export contract.

Credit Limit: The limit upto which claim can be paid under the policy for losses on account of commercial risks.

Services Policy: Policy against rendering of services to foreign parties by Indian firms.

9.12 ANSWERS TO CHECK YOUR PROGRESS

A) 3 i) False ii) False iii) True iv) True v) False

B) 3 i) False ii) True iii) True iv) False v) False

4 24 Months ii) Credit Limit iii) Indian iv) Banks

9.13 TERMINAL QUESTIONS

1) Evaluate the services provided by the ECGC to the exporters.
2) How far has the ECGC helped the exporters in obtaining export finance?
3) Describe the different kinds of policies and financial guarantees issued by the ECGC.
4) "Credit is a major weapon of international competition but it involves risk." Discuss.
5) What is the nature of the risks faced by the international marketer in financing his operations and granting credit to his customers ? What are the means available in India to handle these risks ?

UNIT 10 IMPORT FINANCE

Structure

10.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the nature and significance of import financing decisions
- describe the institutional regulatory framework of import financing
- discuss the exchange control regulations concerning imports.
- explain various methods of import financing

10.1 INTRODUCTION

Imports play an important role in the economy of every country, rich and poor alike. Rich countries need to import capital goods, raw materials and technology to ensure an optimum utilisation of their production capacity. They need to import a wide variety of consumer goods to enable their people to enjoy a high standard of living. Poor countries need to import technology and capital equipment and some time strategic raw materials to develop industries for accelerating pace of their development. In India, for example, the pace of industrial isation, level of exports and consequently the rate of economic growth is heavily dependent upon imports. A low level of imports usually indicates low purchasing power of its people and also emergence of recessionary trends in economy. At a firm's level efficient management of import operations is a critical factor in determining the overall profitability of its imports. Hence, a through understanding of import financing techniques and practices is necessary for concerned managers. In this unit, you will learn the regulatory framework and related exchange control mechanism of import financing and various methods of import financing.

10.2 IMPORT FINANCING

India followed a restricted import policy till mid eighties. Nothing could be imported without a licence involving cumbersome procedures alongwith intricate documentation. Although some liberalisation measures were taken in second half of eighties, real breakthrough came only in 1991.