EXPORT FINANCE

SUBMITTED TO: -
UNIVERSITY OF MUMBAI OCTOBER 2006
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In the light of growing need & importance of exports for our country it is of utmost importance that everyone should have an insight in the field of exports.
In the course of last decade, the export scenario in India has undergone a tremendous change. The liberalization initiated by the government, the keen competition in the market place & the rapid increase in the export of services have all combined to change the picture completely.

This project will be covering various aspects of export finance. Areas covered in this project are related to “concept and types of export finance, financial institutions” etc.

I hope that this project would provide one, some essential information that will be useful to in future.

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FINANCE IS THE LIFE AND BLOOD OF ANY BUSINESS. Success or failure of any export order mainly depends upon the finance available to execute the order. Nowadays export finance is gaining great significance in the field of international finance.

Many Nationalized as well as Private Banks are taking measures to help the exporter by providing them pre-shipment and post-shipment finance at subsidized rate of interest. Some of the major financial institutions are EXIM Bank, RBI, and other financial institutions and banks. EXIM India is the major bank in the field of export and import of India. It has introduced various schemes like forfeiting, FREPEC Scheme, etc.

Even Government is taking measures to help the exporters to execute their export orders without any hassles. Government has introduced schemes like Duty Entitlement Pass Book Scheme, Duty free Materials, setting up of Export Promotion Zones and Export Oriented Units, and other scheme promoting export and import in India. Initially the Indian exporter had to face many hurdles for executing an export order, but over the period these hurdles have been removed by the government to smoothen the procedure of export and import in India.
CHAPTER 1 - INTRODUCTION OF EXPORTS

Export in simple words means selling goods abroad. International market being a very wide market, huge quantity of goods can be sold in the form of exports.

Export refers to outflow of goods and services and inflow of foreign exchange.

Export occupies a very prominent place in the list of priorities of the economic set up of developing countries because they contribute largely to foreign exchange pool.

Exports play a crucial role in the economy of the country. In order to maintain healthy balance of trade and foreign exchange reserve. It is necessary to have a sustained and high rate of growth of exports.

Exports are a vehicle of growth and development. They help not only in procuring the latest machinery, equipment and technology but also the goods and services, which are not available indigenously. Exports leads to national self-reliance and reduces dependence on external assistance which howsoever liberal, may not be available without strings.

Though India’s export compared to other countries is very small, but one of the most important aspects of our export is the strong linkages it is forging with the world economy which is a great boon for a developing nation like India.
CHAPTER 2 - EXPORT FINANCE

2.1 - INTRODUCTION

Credit and finance is the life and blood of any business whether domestic or international. It is more important in the case of export transactions due to the prevalence of novel non-price competitive techniques encountered by exporters in various nations to enlarge their share of world markets.

The selling techniques are no longer confined to mere quality; price or delivery schedules of the products but are extended to payment terms offered by exporters. Liberal payment terms usually score over the competitors not only of capital equipment but also of consumer goods.

The payment terms however depend upon the availability of finance to exporters in relation to its quantum, cost and the period at pre-shipment and post-shipment stage.

Production and manufacturing for substantial supplies for exports take time, in case finance is not available to exporter for production. They will not be in a position to book large export order if they don’t have sufficient financial funds. Even merchandise exporters require finance for obtaining products from their suppliers.

This project is an attempt to throw light on the various sources of export finance available to exporters, the schemes implemented by ECGC and EXIM for export promotion and the recent
developments in the form of tie-EXIM tie-ups, credit policy announced by RBI in Oct 2001 and TRIMS.

2.2 - CONCEPT OF EXPORT FINANCE:

The exporter may require short term, medium term or long term finance depending upon the types of goods to be exported and the terms of statement offered to overseas buyer.

The short-term finance is required to meet “working capital” needs. The working capital is used to meet regular and recurring needs of a business firm. The regular and recurring needs of a business firm refer to purchase of raw material, payment of wages and salaries, expenses like payment of rent, advertising etc.

The exporter may also require “term finance”. The term finance or term loans, which is required for medium and long term financial needs such as purchase of fixed assets and long term working capital.

Export finance is short-term working capital finance allowed to an exporter. Finance and credit are available not only to help export production but also to sell to overseas customers on credit.

2.3 - OBJECTIVES OF EXPORT FINANCE

- To cover commercial & Non-commercial or political risks attendant on granting credit to a foreign buyer.
- To cover natural risks like an earthquake, floods etc.

An exporter may avail financial assistance from any bank, which considers the ensuing factors:
a) Availability of the funds at the required time to the exporter.
b) Affordability of the cost of funds.

2.4 - APPRAISAL

Appraisal means an approval of an export credit proposal of an exporter. While appraising an export credit proposal as a commercial banker, obligation to the following institutions or regulations needs to be adhered to.

**Obligations to the RBI under the Exchange Control Regulations are:**

- Appraise to be the bank’s customer.
- Appraise should have the Exim code number allotted by the Director General of Foreign Trade.
- Party’s name should not appear under the caution list of the RBI.

**Obligations to the Trade Control Authority under the EXIM policy are:**

- Appraise should have IEC number allotted by the DGFT.
- Goods must be freely exportable i.e. not falling under the negative list. If it falls under the negative list, then a valid license should be there which allows the goods to be exported.
- Country with whom the Appraise wants to trade should not be under trade barrier.

**Obligations to ECGC are:**

- Verification that Appraise is not under the Specific Approval list (SAL).
- Sanction of Packing Credit Advances.
GUIDELINES FOR BANKS DEALING IN EXPORT FINANCE:

When a commercial bank deals in export finance it is bound by the ensuing guidelines: -

a) Exchange control regulations.
b) Trade control regulations.
c) Reserve Bank’s directives issued through IECD.
d) Export Credit Guarantee Corporation guidelines.
e) Guidelines of Foreign Exchange Dealers Association of India.

CHAPTER 3 - TYPES OF EXPORT FINANCE

The export finance is being classified into two types viz.

♦ Pre-shipment finance.
♦ Post-shipment finance.

3.1 - PRE-SHIPMENT FINANCE

MEANING:

Pre-shipment is also referred as “packing credit”. It is working capital finance provided by commercial banks to the exporter prior to shipment of goods. The finance required to meet various expenses before shipment of goods is called pre-shipment finance or packing credit.

DEFINITION:

Financial assistance extended to the exporter from the date of receipt of the export order till the date of shipment is known as pre-shipment credit. Such finance is extended to an exporter for the purpose of procuring raw materials, processing, packing, transporting, warehousing of goods meant for exports.
IMPORTANCE OF FINANCE AT PRE-SHIPMENT STAGE:

♦ To purchase raw material, and other inputs to manufacture goods.
♦ To assemble the goods in the case of merchant exporters.
♦ To store the goods in suitable warehouses till the goods are shipped.
♦ To pay for packing, marking and labelling of goods.
♦ To pay for pre-shipment inspection charges.
♦ To import or purchase from the domestic market heavy machinery and other capital goods to produce export goods.
♦ To pay for consultancy services.
♦ To pay for export documentation expenses.

FORMS OR METHODS OF PRE-SHIPMENT FINANCE:

1. **Cash Packing Credit Loan:**
   In this type of credit, the bank normally grants packing credit advantage initially on unsecured basis. Subsequently, the bank may ask for security.

2. **Advance Against Hypothecation:**
   Packing credit is given to process the goods for export. The advance is given against security and the security remains in the possession of the exporter. The exporter is required to execute the hypothecation deed in favour of the bank.

3. **Advance Against Pledge:**
The bank provides packing credit against security. The security remains in the possession of the bank. On collection of export proceeds, the bank makes necessary entries in the packing credit account of the exporter.

4. **Advance Against Red L/C:**
   The Red L/C received from the importer authorizes the local bank to grant advances to exporter to meet working capital requirements relating to processing of goods for exports. The issuing bank stands as a guarantor for packing credit.

5. **Advance Against Back-To-Back L/C:**
   The merchant exporter who is in possession of the original L/C may request his bankers to issue Back-To-Back L/C against the security of original L/C in favour of the sub-supplier. The sub-supplier thus gets the Back-To-Bank L/C on the basis of which he can obtain packing credit.

6. **Advance Against Exports Through Export Houses:**
   Manufacturer, who exports through export houses or other agencies can obtain packing credit, provided such manufacturer submits an undertaking from the export houses that they have not or will not avail of packing credit against the same transaction.

7. **Advance Against Duty Draw Back (DBK):**
   DBK means refund of customs duties paid on the import of raw materials, components, parts and packing materials used in the export production. It also includes a refund of central excise duties paid on indigenous materials. Banks offer pre-shipment as well as post-shipment advance against claims for DBK.

8. **Special Pre-Shipment Finance Schemes:**
   - Exim-Bank’s scheme for grant for **Foreign Currency Pre-Shipment Credit (FCPC)** to exporters.
■ Packing credit for **Deemed exports.**

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**SOME SCHEMES IN PRE-SHIPMENT STAGE OF FINANCE**

1. **PACKING CREDIT**

**SANCTION OF PACKING CREDIT ADVANCES:**
There are certain factors, which should be considered while sanctioning the packing credit advances viz.

i. Banks may relax norms for debt-equity ratio, margins etc but no compromise in respect of viability of the proposal and integrity of the borrower.

ii. Satisfaction about the capacity of the execution of the orders within the stipulated time and the management of the export business.

iii. Quantum of finance.

iv. Standing of credit opening bank if the exports are covered under letters of credit.

v. Regulations, political and financial conditions of the buyer’s country.

**DISBURSEMENT OF PACKING CREDIT:**

After proper sanctioning of credit limits, the disbursing branch should ensure:

To inform ECGC the details of limit sanctioned in the prescribed format within 30 days from the date of sanction.

a) To complete proper documentation and compliance of the terms of sanction i.e. creation of mortgage etc.

b) There should be an export order or a letter of credit produced by the exporter on the basis of which disbursements are normally allowed.

**In both the cases following particulars are to be verified:**

i. Name of the Buyer.

ii. Commodity to be exported.

iii. Quantity.

iv. Value.

v. Date of Shipment / Negotiation.

vi. Any other terms to be complied with.
2. **FOREIGN CURRENCY PRE-SHIPMENT CREDIT (FCPC)**

- The FCPC is available to exporting companies as well as commercial banks for lending to the former.
- It is an additional window to rupee packing credit scheme & available to cover both the domestic i.e. indigenous & imported inputs. The exporter has two options to avail him of export finance.
- To avail him of pre-shipment credit in rupees & then the post shipment credit either in rupees or in foreign currency denominated credit or discounting /rediscounting of export bills.
- To avail of pre-shipment credit in foreign currency & discounting/rediscounting of the export bills in foreign currency.
- FCPC will also be available both to the supplier EOU/EPZ unit and the receiver EOU/EPZ unit.

Pre-shipment credit in foreign currency shall also be available on exports to ACU (Asian Clearing Union) countries with effect from **1.1.1996.**

**Eligibility:** PCFC is extended only on the basis of confirmed /firms export orders or confirmed L/C’s. The “Running account facility will not be available under the scheme. However, the facility of the liquidation of packing credit under the first in first out method will be allowed.

**Order or L/C :** Banks should not insist on submission of export order or L/C for every disbursement of pre-shipment credit, from exporters with consistently good track record. Instead, a system of periodical submission of a statement of L/C’s or export orders in hand, should be introduced.

**Sharing of FCPC:** Banks may extend FCPC to the manufacturer also on the basis of the disclaimer from the export order.
2.2 - POST-SHIPMENT FINANCE

MEANING:
Post shipment finance is provided to meet working capital requirements after the actual shipment of goods. It bridges the financial gap between the date of shipment and actual receipt of payment from overseas buyer thereof. Whereas the finance provided after shipment of goods is called post-shipment finance.

DEFINITION:
Credit facility extended to an exporter from the date of shipment of goods till the realization of the export proceeds is called Post-shipment Credit.

IMPORTANCE OF FINANCE AT POST-SHIPMENT STAGE:
♦ To pay to agents/distributors and others for their services.
♦ To pay for publicity and advertising in the overseas markets.
♦ To pay for port authorities, customs and shipping agents charges.
♦ To pay towards export duty or tax, if any.
♦ To pay towards ECGC premium.
♦ To pay for freight and other shipping expenses.
♦ To pay towards marine insurance premium, under CIF contracts.
♦ To meet expenses in respect of after sale service.
♦ To pay towards such expenses regarding participation in exhibitions and trade fairs in India and abroad.
♦ To pay for representatives abroad in connection with their stay board.
1. **Export bills negotiated under L/C:**

   The exporter can claim post-shipment finance by drawing bills or drafts under L/C. The bank insists on necessary documents as stated in the L/C. If all documents are in order, the bank negotiates the bill and advance is granted to the exporter.

2. **Purchase of export bills drawn under confirmed contracts:** The banks may sanction advance against purchase or discount of export bills drawn under confirmed contracts. If the L/C is not available as security, the bank is totally dependent upon the credit worthiness of the exporter.

3. **Advance against bills under collection:** In this case, the advance is granted against bills drawn under confirmed export order L/C and which are sent for collection. They are not purchased or discounted by the bank. However, this form is not as popular as compared to advance purchase or discounting of bills.

4. **Advance against claims of Duty Drawback (DBK):** DBK means refund of customs duties paid on the import of raw materials, components, parts and packing materials used in the export production. It also includes a refund of central excise duties paid on indigenous materials. Banks offer pre-shipment as well as post-shipment advance against claims for DBK.

5. **Advance against goods sent on Consignment basis:** The bank may grant post-shipment finance against goods sent on consignment basis.
6. **Advance against Undrawn Balance of Bills:** There are cases where bills are not drawn to the full invoice value of goods. Certain amount is undrawn balance which is due for payment after adjustments due to difference in rates, weight, quality etc. banks offer advance against such undrawn balances subject to a maximum of 5% of the value of export and an undertaking is obtained to surrender balance proceeds to the bank.

7. **Advance against Deemed Exports:** Specified sales or supplies in India are considered as exports and termed as “deemed exports”. It includes sales to foreign tourists during their stay in India and supplies made in India to IBRD/ IDA/ ADB aided projects. Credit is offered for a maximum of 30 days.

8. **Advance against Retention Money:** In respect of certain export capital goods and project exports, the importer retains a part of cost goods/services towards guarantee of performance or completion of project. Banks advance against retention money, which is payable within one year from date of shipment.

9. **Advance against Deferred payments:** In case of capital goods exports, the exporter receives the amount from the importer in installments spread over a period of time. The commercial bank together with EXIM bank do offer advances at concessional rate of interest for 180 days.
SOME SCHEMES UNDER OPERATION IN PRE-SHIPMENT FINANCE

1. DEFERRED CREDIT

Meaning:
Consumer goods are normally sold on short term credit, normally for a period upto 180 days. However, there are cases, especially, in the case of export of capital goods and technological services; the credit period may extend beyond 180 days. Such exports were longer credit terms (beyond 180 days) is allowed by the exporter is called as “deferred credit” or “deferred payment terms”.

How the payment is received?
The payment of goods sold on “deferred payment terms” is received partly by way of advance or down payment, and the balance being payable in installments spread over a period of time.

Period of financial credit support:
Financial institutions extend credit for goods sold on “deferred payment terms” (subject to approval from RBI, if required). The credit extended for financing such deferred payment
exports is known as Medium Term and Long Term Credit. The medium credit facilities are provided by the commercial banks together with EXIM Bank for a period upto 5 years. The long term credit is offered normally between 5 yrs to 12 yrs, and it is provided by EXIM Bank.

**Amount of credit support:**
Any loan upto Rs.10crore for financing export of capital goods on deferred payment terms is sanctioned by the commercial bank which can refinance itself from Exim bank. In case of contracts above Rs.10 Lakhs but not more than Rs50crore, the EXIM Bank has the authority to decide whether export finance could be provided. Contracts above Rs.50crore need the clearance from the working group on Export Finance.

2. **REDISCOUNTING OF EXPORT BILLS ABROAD (EBRD) SCHEME:**

The exporter has the option of availing of export credit at the post-shipment stage either in rupee or in foreign currency under the rediscounting of export bills abroad (EBRD) scheme at LIBOR linked interest rates.

This facility will be an additional window available to exporter along with the exiting rupee financing schemes to an exporter at post shipment stage. This facility will be available in all convertible currencies. This scheme will cover export bills upto 180 days from the date of shipment (inclusive of normal transit period and grace period).

The scheme envisages ADs rediscounting the export bills in overseas markets by making arrangements with an overseas agency/bank by way of a line of credit or banker’s acceptance facility or any other similar facility at rates linked to **London Inter Bank Offered Rate** (LIBOR) for six months.

Prior permission of RBI will not be required for arranging the rediscounting facility abroad so long as the spread for rediscounting facility abroad does not exceed one percent.
over the six months LIBOR in the case of rediscounting ‘with recourse’ basis & 1.5% in the case of ‘without recourse’ facility. Spread, should be exclusive of any withholding tax. In all other cases, the RBI’s permission will be needed.

3. FINANCE FOR RUPEE EXPENDITURE FOR PROJECT EXPORT CONTRACTS (FREPEC)

1. What is FREPEC Program?
   This program seeks to Finance Rupee Expenditure for Project Export Contracts, incurred by Indian companies.

2. What is the purpose of this Credit?
   To enable Indian project exporters to meet Rupee expenditure incurred(required to be incurred for execution of overseas project export contracts such as for acquisition/purchase/acquisition of materials and equipment, acquisition of personnel, payments to be made in India to staff, sub-contractors, consultants and to meet project related overheads in Indian Rupees.

3. Who are eligible for Assistance under FREPEC Program?
   Indian project exporters who are to execute project export contracts overseas secure on cash payment terms or those funded by multilateral agencies will be eligible. The purpose of the new lending program is to give boost to project export efforts of companies with good track record and sound financials.

4. What is the quantum of credit extended under this program?
   Up to 100% of the peak deficit as reflected in the Rupee cash flow statement prepared for the project. Exim Bank will not normally take up cases involving credit requirement
below Rs. 50 lakhs. Although, no maximum amount of credit is being proposed, while approving overall credit limit, credit-worthiness of the exporter-borrower would be taken into account. Where feasible, credit may be extended in participation with sponsoring commercial banks.

5. **How are Disbursements made under this Program?**
   Disbursements will be made in Rupees through a bank account of the borrower-company against documentary evidence of expenditure incurred accompanied by a certificate of Chartered Accountants.

6. **How is a FREPEC Loan to be extinguished?**
   Repayment of credit would normally be out of project receipts. Period of repayment would depend upon the project cash flow statements, but will not exceed 4 (four) years from the effective date of project export contract. The liability of the borrower to repay the credit and pay interest and other monies will be absolute and will not be dependent upon actual realization of project bills.

7. **What is the security stipulated for FREPEC loan?**
   Hypothecation of project receivables and project movables.
   - Optional: where available
     - Personal Guarantees of Directors of the Company.
     - Available collateral security.
CHAPTER 4 - LETTER OF CREDIT

INTRODUCTION:
This is one of the most popular and more secured of method of payment in recent times as compared to other methods of payment. A L/C refers to the documents representing the goods and not the goods themselves. Banks are not in the business of examining the goods on behalf of the customers. Typical documents, which are required includes commercial invoice, transport document such as Bill of lading or Airway bill, an insurance documents etc. L/C deals in documents and not goods.

DEFINITION:
A Letter of Credit can be defined as “an undertaking by importer’s bank stating that payment will be made to the exporter if the required documents are presented to the bank within the validity of the L/C”.

PARTIES INVOLVED IN LETTER OF CREDIT:

**Applicant:** The buyer or importer of goods

**Issuing bank:** Importer’s bank, who issues the L/C

**Beneficiary:** The party to whom the L/C is addressed. The Seller or supplier of goods.

**Advising bank:** Issuing bank’s branch or correspondent bank in The exporter’s country to whom the L/C is send for Onward transmission to the beneficiary.

**Confirming bank:** The bank in beneficiary’s country, which
Guarantees the credit on the request of the issuing Bank.

**Negotiating bank:** The bank to whom the beneficiary presents his Documents for payment under L/C

### A Letter of Credit contains these elements:

- A payment undertaking given by the bank (issuing bank) on behalf of the buyer (applicant)
  - To pay a seller (beneficiary) a given amount of money on presentation of specified documents representing the supply of goods within specific time limits
  - These documents conforming to terms and conditions set out in the letter of credit
    - Documents to be presented at a specified place.

### In simple words, the Issuing Bank's role is twofold:

- To guarantee to the seller that if complete documents are presented, the bank will pay the seller the amount due. This offers security to the seller – the bank says in effect "We will pay you if you present documents (XYZ)"
  - To examine the documents and only pay if these comply with the terms and conditions set out in the letter of credit. This protects the buyer's interests - the bank says "We will only pay your supplier on your behalf if they present documents (XYZ) that you have asked for"

### ADVANTAGES OF LETTER OF CREDIT

### ADVANTAGES TO THE EXPORTER:
• No blocking of funds.
• Clearance of import regulations.
• Free from liability.
• Pre-shipment finance.
• Non-refusal by importer.
• Reduction in bad-debts.

ADVANTAGES TO THE IMPORTER:
• Better terms of trade.
• Assurance of shipment of goods.
• Overdraft facility.
• No blocking of funds.
• Delivery on time.
• Better relations.

DISADVANTAGES OF LETTER OF CREDIT:
• Lacks flexibility.
• Complex method
• Expensive for importer
• Problem of revocable L/C
Sample Document: Letter of Credit (Documentary Credit)

THE MOON BANK
INTERNATIONAL OPERATIONS
5 MOONLIGHT BLVD.,
EXPORT-CITY AND POSTAL CODE
EXPORT-COUNTRY

OUR ADVICE NO.          ISSUING BANK REF. NO. & DATE
MB-5432                  SBRE-777     January 26, 2005
To,

UVW Exports
88 Prosperity Street East, Suite 707
Export-City and Postal Code
Dear Sirs:

We have been requested by The Sun Bank, Sunlight City, Import-Country to advise that they have opened with us their irrevocable documentary credit number SB-87654

For account of DEF Imports, 7 Sunshine Street, Sunlight City, Import-Country in your favor for the amount of not exceeding Twenty Five Thousand U.S. Dollars (US$25,000.00) available by your draft(s) drawn on us at sight for full invoice value

**Accompanied by the following documents:**

1. Signed commercial invoice in five (5) copies indicating the buyer's Purchase Order No. DEF-101 dated January 10, 2005
2. Packing list in five (5) copies.
3. Full set 3/3 clean on board ocean bill of lading, plus two (2) non-negotiable copies, issued to order of The Sun Bank, Sunlight City, Import-Country, notify the above accountee, marked "freight Prepaid", dated latest March 19, 2005, and showing documentary credit number.
4. Insurance policy in duplicate for 110% CIF value covering Institute Cargo Clauses (A), Institute War and Strike Clauses, evidencing that claims are payable in Import-Country.

**Covering:** 100 Sets 'ABC' Brand Pneumatic Tools, 1/2" drive, complete with hose and quick couplings, CIF Sunny Port

Shipment from: Moonbeam Port, Export-Country to Sunny Port, Import-Country
Partial shipment: Prohibited
Tran-shipment: Permitted

Special conditions:

1. All documents indicating the Import License No. IP/123456 dated January 18, 2005.

2. All charges outside the Import-Country are on beneficiary's account
Documents must be presented for payment within 15 days after the date of shipment.
Draft(s) drawn under this credit must be marked

Drawn under documentary credit No. SB-87654 of The Sun Bank,
Sunlight City, Import-Country, dated January 26, 2005
We confirm this credit and hereby undertake that all drafts drawn under and in conformity
with the terms of this credit will be duly honored upon delivery of documents as specified, if
presented at this office on or before March 26, 2005

Very truly yours,

________________________________________
Authorized Signature

Unless otherwise expressly stated, this Credit is subject to the Uniform Customs and Practice

CHAPTER 5 - SOME IMPORTANT CONCEPTS IN EXPORT FINANCE

5.1 - FORFEITING

Forfeiting is a mechanism of financing exports.

• By discounting export receivables
• Evidenced by bills of exchange or promissory notes
• Without recourse to the seller (viz. exporter)
• Carrying medium to long term maturities
• On a fixed rate basis (discount)
• Upto 100 percent of the contract value.

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

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

**CONCEPT OF FORFEITING**

1. **What exports are eligible for forfeiting?**
   All exports of capital goods and other goods made on medium to long term credit are eligible to be financed through forfeiting.

2. **How does forfeiting work?**
   Receivables under a deferred payment contract for export of goods, evidenced by bills of exchange or promissory notes, can be forfeited.
   Bills of exchange or promissory notes, backed by co-acceptance from a bank (which would generally be the buyer's bank), are endorsed by the exporter, without recourse, in favour of the forfeiting agency in exchange for discounted cash proceeds. The co-accepting bank must be acceptable to the forfeiting agency.

3. **Is there a prescribed format for the bills of exchange or promissory notes?**
   Yes. The bills of exchange or promissory notes should be in the prescribed format.

4. **What role will Exim Bank play in forfeiting transactions?**
   The role of Exim Bank will be that of a facilitator between the Indian exporter and the overseas forfeiting agency.

5. **How will Exim Bank facilitate a forfeiting transaction?**
   On a request from an exporter, for an export transaction which is eligible to be forfeited, Exim Bank will obtain indicative and firm forfeiting quotes - discount rate, commitment and other fees - from overseas agencies.
   Exim Bank will receive availed bills of exchange or promissory notes, as the case may be, and send them to the forfeiter for discounting and will arrange for the discounted proceeds to be remitted to the Indian exporter.
   Exim Bank will issue appropriate certificates to enable Indian exporters to remit commitment fees and other charges.
6. **What does forfeiting cost include?**

A forfeiting transaction has typically three cost elements:

- Commitment fee
- Discount fee
- Documentation fee

7. **What benefits accrue to an exporter from forfeiting?**

Converts a deferred payment export into a cash transaction, improving liquidity and cash flow

Frees the exporter from cross-border political or commercial risks associated with export receivables

Finance up to 100 percent of the export value is possible as compared to 80-85 percent financing available from conventional export credit program

As forfeiting offers without recourse finance to an exporter, it does not impact the exporter's borrowing limits. Thus, forfeiting represents an additional source of funding, contributing to improved liquidity and cash flow

Provides fixed rate finance; hedges against interest and exchange risks arising from deferred export credit

Exporter is freed from credit administration and collection problems

Forfaiting is transaction specific. Consequently, a long term banking relationship with the forfeiter is not necessary to arrange a forfeiting transaction

Exporter saves on insurance costs as forfeiting obviates the need for export credit insurance

5.2 - **FACTORING**

Factoring may be defined as “A contract by which the factor is to provide at least two of the services, (finance, the maintenance of accounts, the collection of receivables and protection against credit risks) and the supplier is to assigned to the factor on a continuing basis by way of sale or security, receivables arising from the sale of goods or supply of services”.
Factoring offers smaller companies the instant cash advantage that was once available only to large companies with high sales volumes. With Factoring, there's no need for credit or collection departments, and no need to spend your profits on maintaining accounts receivables.

In simple words...Factoring turns your **receivable into cash today**, instead of waiting to be paid at a future date.

**International export Factoring Scheme:**

RBI has approved the above scheme evolved by SBI Factors and Commercial Services Pvt. Ltd Mumbai for providing “International Export Factoring Services” on “with recourse” basis. The salient features of the scheme are as follows:

- An exporter should submit to **SBI Factors & Commercial Services Pvt.Ltd** i.e. the Export Factor (EF) a list of Buyers(customers) indicating their names & street addresses and his credit line needs.

- The **Import Factor (IF)** located in the importer’s country selected by EF, will rate the buyer’s list and the results will be reported to the exporter through EF. The exporter will apply for a credit limit in respect of overseas importer. IF will grant credit line based on the assessment of credit-worthiness of the overseas importer.

- The exporter will thereafter enter into an export factoring agreement with EF. All export receivable will be assigned to the EF, who in turn will assign them to IF.

- The exporter will ship merchandise to approved foreign buyers. Each invoice is made payable to a specific factor in the buyer’s (importer) country. Copies of invoices & shipping documents should be sent to IF through EF. EF will make prepayment to the exporter against approved export receivables.
EF will report the transaction in relevant ENC statement detailing full particulars, such as Exporter’s Code Number, GR Form Number, Custom Number, Currency, Invoice value etc.

On receipt of payments from buyers on the due date of invoice, IF will remit funds to EF who will convert foreign currency remittances into rupees and will transfer proceeds to the exporter after deducting the amount of prepayments, if made. Simultaneously, EF will report the transaction in the relative ‘R’ returns enclosing duplicate copy of the respective GR form duly certified. The payment received will be the net payment after deduction of a service fee, which ranges from 0.5% to 2% of the value of the invoices.

If an approved buyer (importer) is unable to pay the proceeds of exports, IF will pay the receivables to EF, 100 days after the due date. The transactions of this nature will be reported by EF in the half yearly statements which are to be submitted to RBI, indicating therein the reasons for delay/non payment.

5.3 - Supplier's Credit for deferred payment exports

Definition of Deferred Payment Exports:
In terms of Regulation 9 of the Foreign Exchange Management Act 1999, the amount representing the full export value of goods exported must be realized and repatriated to India within 6 months of date of export.
Exports where more than 10% of the value is realized beyond the prescribed period, i.e. 6 months from date of shipment, are treated as Deferred Payment Exports

1. What is an offer?
   ⇒ Exim Bank offers Supplier's Credit in Rupees or in Foreign Currency at post-shipment stage to finance export of eligible goods and services on deferred payment terms.
   ⇒ Supplier's Credit is available both for supply contracts as well as project exports; the latter includes construction, turnkey or consultancy contracts undertaken overseas.

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

3. **What are the general terms of Supplier's Credit?**

⇒ **Extent of Supplier's Credit:**

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

⇒ **Currency of Credit:**

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

⇒ **Rate of Interest:**

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

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

**Period of Credit and Repayment:** Period of credit is determined for each proposal having regard to the value of contract, nature of goods covered, security, competition. Repayment period for Supplier's Credit facility is fixed coinciding with the repayment of post-shipment credit extended by Indian exporter to overseas buyer. However

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