Letter of Credit

A letter of credit is the most widely used trade finance instrument in the world. It has been used for the last several hundred years and is considered a highly effective way for banks to transact and finance export and import trade. The letter of credit is a formal bank letter, issued for a bank's customer, which authorizes an individual or company to draw drafts on the bank under certain conditions. It is an instrument through which a bank furnishes its credit in place of its customer's credit. The bank plays an intermediary role to help complete the trade transaction. The bank deals only in documents and does not inspect the goods themselves.

Therefore a letter of credit can't prevent an importer from being taken in by an unscrupulous exporter.

The Uniform Commercial Code and the Uniform Customs and Practices for Documentary Credits published by the United States Council of the International Chamber of Commerce set forth the covenants governing the issuance and negotiation of letters of credit. All letters of credit must be issued:

- In favor of a specific beneficiary,
- for a specific amount ofmoney, in a form clearly stating how payment to the beneficiary is to be made and under what conditions, and with a specific expirationdate.
- Role of Banks in Documentary Letters of Credit
- Compared to other payment forms, the role of banks is substantial in documentary Letter of Credit transactions.
- The banks provide additional security for both parties in a trade transaction by playing the role of intermediaries. The issuing bank working for the importer and the advising bank working for the exporter.
- The banks assure the seller that he would be paid if he provides the necessary documents to the issuing bank through the advising bank.
- The banks also assure the buyer that his money would not be released unless the shipping documents evidencing proper and accurate shipment of goods are presented.

Types of Letters of Credit - 1

A letter of credit may be of two forms: Revocable or Irrevocable

Revocable L/C

This is one that permits amendments or cancellations any time by the issuing bank. This means that the exporter can't count on the terms indicated on the initial document until such a time as he is paid. This form is rarely in use in modern day trade transactions.

Irrevocable L/C

Such a letter of credit cannot be changed unless both buyer and seller agree to make changes. Usually an L/C is regarded as irrevocable unless otherwise specified. Therefore, in effect, all the parties to the letter of credit transaction, i.e. the issuing bank, the seller and the buyer, must agree to any amendment to or cancellation of the letter of credit. Irrevocable letters of credit are attractive to both the seller and the buyer because of the high degree of involvement and commitment by the bank(s). By the 1993 revision of the UCP, credits are deemed irrevocable, unless there is an indication to the contrary.

Types of Letters of Credit - 2

A letter of credit may be of two forms: Confirmed or Unconfirmed.

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Confirmed L/C

If the exporter is uncomfortable with the credit risk of the issuing bank or if the country where the issuing bank is situated is less developed or politically unstable, then as an extra measure, the exporter can request that the L/C to be confirmed. This would add further comfort to the transaction; an exporter may request that the L/C be confirmed.

This is generally by a first class international bank, typically the advising bank (now the Confirming Bank). This bank now takes the responsibility of making payments if no remittance is received from the issuing bank on due date.

Unconfirmed L/C

In contrast, an unconfirmed credit does not require the advising bank to add its own payment undertaking. It therefore leaves the liability seller with the issuing bank. The advising bank is merely as a channel of transmission of documents and payment.

Methods of Settlement

The documentary letters of credit can be opened in two ways:

1. **Sight Letter of Credit**: A Sight Letter of Credit is a credit in which the seller obtains payment upon presentation of documents in compliance with the terms and conditions.
2. **Time Draft or Usance Letter of Credit**: A Time Draft or Usance Letter of Credit is a credit in which the seller will be paid a fixed or determinable future time. A time Draft or usance letter of credit calls for time or usance drafts to be drawn on and accepted by the buyer, provided that documents are presented in good order. The buyer is obligated to pay the face amount at maturity. However, the issuing bank's obligation to the seller remains in force until and unless the draft is paid.

Financing Importers through Letters of Credit

While the L/C can be used as a payment mechanism, it can also be used to provide financing to the applicant (importer). Deferred and Acceptance credits (i.e. term credits) are considered to be financing instruments for the importer/buyer. Both payment structures provide the importer/buyer the time opportunity to sell the goods and pay the amount due with the proceeds.

Under the Deferred Payment structure payment is made to the seller at a specified future date, for example 60 days after presentation of the documents or after the date of shipment (i.e. the date of the bill of lading).

Under the Acceptance structure the exporter is required to draw a draft (bill of exchange) either on the issuing or confirming bank. The draft is accepted by the bank for payment at a negotiated future fixed date. This gives the importer the potential time needed to sell the product and pay off the Acceptance at due date. For example, payment date under an acceptance credit may be at sight or after 90 days from presentation of the documents or from the shipment of goods.

Special Note on Documentary Letters of Credit

Documentary Letters of Credit hinge much on the appropriateness of documents. Banks involved in the transaction do not need to know about the physical state of the goods in question but concern themselves only with documents. If proper documents are presented, banks will make payment whether or not the actual goods shipped comply with the sales contract.

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Thus, special care needs to be taken in preparation of the documents since a slight omission or discrepancy between required and actual documents may cause additional costs, delays and seizures or even total abortion of the entire deal.

(1) Documents associated with an L/C

Documents are the key issue in a letter of credit transaction. Banks deal in documents, not in goods. They decide on the basis of documents alone whether payment, negotiation, or acceptance is to be effected. A single transaction can require many different kinds of documents. Most letter of credit transactions involve a draft, an invoice, an insurance certificate, and a bill of lading. Transactions can culminate in sight drafts or acceptances. Because letter of credit transactions can be so complicated and can involve so many parties, banks must ensure that their letters are accompanied by the proper documents, that those documents are accurate, and that all areas of the bank handle them properly.

The four primary types Documents associated with an L/C are as follows:

- Transfer documents
- Insurance documents
- Commercial documents
- Other documents

Transfer documents are issued by a transportation company when moving the merchandise from the seller to the buyer. The most common transfer document is the Bill of lading. The bill of lading is a receipt given by the freight company to the shipper. A bill of lading serves as a document of title and specifies who is to receive the merchandise at the designated port (as specified by the exporter). It can be in nonnegotiable form (straight bill of lading) or in negotiable form (order bill of lading). In a straight bill of lading, the seller (exporter) consigns the goods directly to the buyer (importer). This type of bill is usually not desirable in a letter of credit transaction, because it allows the buyer to obtain possession of the merchandise without regard to any bank agreement for repayment. A straight bill of lading may be more suitable for prepaid or open account transactions. With an order bill of lading the shipper can consign the goods to the bank, which retains title until the importer acknowledges liability to pay. This method is preferred in documentary or letter of credit transactions. The bank maintains control of the merchandise until the buyer completes all the required documentation. The bank then releases the bill of lading to the buyer, who presents it to the shipping company and gains possession of the merchandise.

Insurance documents, normally an insurance certificate, cover the merchandise being shipped against damage or loss. The terms of the merchandise contract may dictate that either the seller or the buyer obtain insurance. Open policies may cover all shipments and provide for certificates on specific shipments.

Commercial documents, principally the invoice, are the seller's description of the goods shipped and the means by which the buyer gains assurances that the goods shipped are the same as those ordered. Among the most important commercial documents are the invoice and the draft or bill of exchange. Through the invoice, the seller presents to the buyer a statement describing what has been sold, the price, and other pertinent details. The draft supplements the invoice as the means by which the seller charges the buyer for the merchandise and demands payment from the buyer, the buyer's bank, or some other

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bank. Although a draft and a check are very similar, the writer of a draft demands payment from another party's account.

In a letter of credit, the draft is drawn by the seller, usually on the issuing, confirming, or paying bank, for the amount of money due under the terms of the letter of credit. In a collection, this demand for payment is drawn on the buyer. The customary parties to a draft, which is a negotiable instrument, are the drawer (usually the exporter), the drawee (the importer a bank), and the payee (usually the exporter), who is also the endorser. A draft can be "clean" (an order to pay) or "documentary" (with shipping documents attached).

A draft that is negotiable:

- Is signed by the maker or drawer
- Contains an unconditional promise to pay a certain sum of money
- Is payable on demand or at a definite time
- Is payable to order or to bearer
- Is two-name paper
- May be sold and ownership transferred by endorsement to the "holder in due course."

The holder in due course has recourse to all previous endorsers if the primary obligor (drawee) does not pay. The seller (drawer) is the secondary obligor if the endorser does not pay. The secondary obligor has an unconditional obligation to pay if the primary obligor and the endorser do not, therefore the term "two-name paper."

Other documents include certain official documents that may be required by governments in order to regulate and control the passage of goods through their borders. Governments may require inspection certificates, consular invoices, or certificates of origin. Transactions can entail notes and advances collateralized by trust receipts or warehouse receipts.

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Foreign Trade Contracts and Documents

Introduction

Export documentation is a tedious but necessary process that all exporters must pay close attention to, as documentation requirements vary considerably by country, commodity, and situation. Although exporters must fill out and submit many different forms for each international shipment, most require similar data elements and can (and should) be duplicated precisely from one document to the next.

Fortunately, there are software products that capture the primary details of the shipment and insert them into the necessary documents without flaw. This Fast Fact will describe many of the documents your business will need in order to export successfully.

This lesson explains documents used in export documents are authenticated records certifying that the goods are exported in general export documents are classified as commercial documents and regulatory documents. Commercial documents are those by customs of trade, are required for effecting physical transfer of goods and their title from the exporter to the importer and the realization of export sale proceeds. Regulatory documents are those which have been proscribed by different government department/ bodies in compliance of the requirements of various rules and regulations under relevant laws. Governing, export trade such as, export inspection, foreign exchange regulations, export trade control customs etc.

Commercial Documents Are Listed Below

1. Proforma invoice
2. Commercial invoice
3. Packing list
4. Shipping instructions
5. Intimation for inspection
6. Certificate of inspection/Quality control
7. Insurance declaration
8. Certificate of insurance
9. Shipping order
10. Mate receipt
11. Bill of loading /combined transport document
12. Application for certificate of origin
13. Certificate of origin
14. Bill of exchange
15. Shipment advice
16. Letter to the band for collection/negotiation of documents.

Regulatory Documents Are Listed Below:

1.	Gate Pass-1/Gate Pass-II	Prescribed by Central
2.	AR4/AR4A Form	Excise |Authorities
	➢ For export of goods ex-bond	Customs Authorities
	➢ For export of Duty Free Goods	
	➢ For export of Dutiable goods	
	➢ For export of Goods under	

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- Claim for Duty Drawback

4. Export Application. Dock Challan/ Port Trust Copy of Shipping Bill (prescribed by Port Trust)
5. Receipt for payment of port charges
6. Vehicle Ticket
7. Exchange Control Declaration/Prescribed by RBI GR/PP Forms
8. Freight Payment Certificate
9. Insurance Premium
10. Payment Certificate

Out of 16 commercial documents, exporters have to send as many as eight documents are known as principal export documents.

Commercial invoice packing list, bill of lading/combined transport document, certificate of inspection, quality control. Insurance policy, certificate of origin, bill of exchange and shipment advice are called principle export documents. The remaining eight documents are known as auxiliary documents.

Classification of Documents

The export related documents can be classified into the following heads for easy understanding

I. Documents related to Goods,
II. Documents related to Transport,
III. Documents related to Payments,
IV. Documents related to Inspection,
V. Documents related to Exchange Control, and
VI. Documents relating to Excisable Goods.

I. Documents Related to Goods

1. Proforma Invoice
2. Commercial Invoice
3. Packing List
4. Certificate of Origin
5. Consular Invoice
6. GSP Certificate.

II. Documents Related to Transport

1. Shipping Order
2. Mate's Receipt
3. Bill of Lading
4. Airway Bill
5. Shipping Bill
6. Marine Insurance policy
7. Post Parcel Receipt
8. Port Trust Document

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III. Documents Related to Payment

1. Letter of Credit
2. Bill of Exchange
3. Bank Certificate of Payment.

IV. Documents Related to Inspection

1. Certificate of Inspection

V. Documents Related Of Exchange Control

1. Guaranteed |Remittance (GR) Form
2. Post Parcel (PP) Form
3. Value Payable/Cast on-Delivery (VP/COD) Form

VI. Documents Relating to Excisable Goods

1. AR4 Form
2. Form C

Documents Related to Goods

Export documents related goods are explained below.

1. Proforma Invoice

It is a provisional invoice. The primary purpose of the proforma invoice is to state the terms and conditions and other subject matter relating to export to export to the importer. The information contained in the proforma invoice is as the same commercial invoice and document format is also the same. The proforma invoice sent by the exporter is used by the importer

(i) To get import license,
(ii) To open letter of credit and
(iii) To arrange for loan in foreign exchange.

2. Commercial Invoice

The commercial Invoice described the entire details of goods involved in export transaction. It is an important export document. it serves as a bill for goods exported. Import duty in the importers country is calculated on the basis of commercial invoice. It is the evidence of contract of sale. The commercial invoice should be given prescribed format. It should correspond with the specifications relating to goods given in the letter of credit.

Contents of Commercial Invoice

Commercial invoice contains the following information related to goods.

i. Name and address of the exporter and importer,
ii. Invoice number
iii. Reference number of exporter and exporter,
iv. Terms of delivery of goods and payment for export,
v. Name of the ship/aircraft.
vi. Port of loading and port of discharge,
vii. Detailed description of goods,

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viii. Details of packing, number of packages, types and specified markings on the packages,
ix. Quantity of goods, unit price of goods and total price,
x. Details of freight and insurance.

3. Packing List

Export packs the export cargo according to the instruction of the importer. Packing of note reveals the contents of single pack. One packing note is prepared for one pack. In there are so many pack, consolidated statement of packing notes is to be prepared. Packing list shows the contents of the whole consignment of export. Exporter should submit packing list to the customs authorities and insurance company in order to fulfill the documentary obligation for export.

4. Certificate of Origin

Certificate of Origin is generally issued by the Chamber of Commerce. Export Promotion Council and other export related institutions which are authorised by the government of India are also issuing certificate of origin.

Contents of Certificate of Origin

i. Description of goods-quantity and value,
ii. Number of packages and markings packages –wise,
iii. Declaration by the exporter,
iv. Certificate by the issuing authority.

In foreign trade, certain specified countries provide concession in import duty to goods being exported from a particular country. This concession is given under generalized system preferences. A proof is required to the countries providing concession that the goods are manufactured in that particular country. Certificate of origin serves as a proof in this regard

5. Consular Invoice

In foreign trade, some importing countries may insist and require consular invoiced in addition to commercial invoices. The format of the consular invoice is to be received from the office of the respective consulate of the importing country functioning in the exporter's country. After getting the format, exporters should complete the form by providing necessary information about the exportable goods. The consular invoice should be signed and authenticated by the consulate of the importing country functioning in the exporter's country. Exporter has to pay a nominal fee to the local consulate for issuing and certifying the consular invoice.

6. GSP Certificate

GSP certificate is used by the developing country to get duty concession from the developed countries. Concession refers that the developed countries will reduce import duty when they import goods from the specified developing countries. Developing countries are encouraged to export to developed countries and developed countries levy concessional import duty under generalized system of preferences (GSP) scheme of the United Nations Conference of Trade and Development (UNCTAD). India is also one of the countries getting concessions under GSP.

GSP certificate is required to avail this type of concession. Export promotion councils and directorate General of Foreign trade are authorised by the government to issue GSP certificate to the exporters. Central silk board, coin board, all India handicraft board, textiles committed and jute commissioner are also authorised to issue GSP certificate to the exporters coming under their direction and control.

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Export Documentation

Essential data elements must be uniform on all documents:

- Name & Address of Seller / Shipper
- Name & Address of Buyer / Consignee
- Origin Point & Destination Point
- Port of Load / Unload
- Description of the Goods
- Number of Pieces, Cartons, Crates
- Net weight, Gross Weight, Volume
- Invoice & Purchase Order Numbers

Material Handling

Packing List: A packing list is prepared by the shipper and is a detailed breakdown of the items within a shipment. It may also include any "special marks" for identification. For example, the customer may want "ABC XX" in blue letters on the side of the packaging. For insurance claims and tracking purposes, it helps to describe what is in each "package". The packing list should also reference the customer's purchase order number and destination.

Often, a packing list is taped to palletized cargo or on the main carton/box of a shipment so that the importer's customs agency or any transportation handlers can have easy access to it to know what the goods are and their destination. The quantity and items listed on the commercial invoice must match with the packing list, but not necessarily match the pro- forma invoice. Some companies prepare a packing list that is identical to the commercial invoice, minus the prices and other monetary details.

Dock (or Warehouse) Receipt: The dock or warehouse receipt is issued by a warehouse supervisor or port officer and certifies that the goods have been received by the shipping company. This document is used to transfer accountability when goods are moved by the domestic carrier to the port of embarkation and left with the international carrier. At this time, the carrier's Bill of Lading is also signed by both parties and copies are issued accordingly.

Bills of Lading (B/L)

A Bill of Lading is issued by the carrier to the shipper for receipt of the goods, and is a contract between the owner of the goods and the carrier to deliver the goods. Sometimes the B/L acts as title to the goods so an "Original" B/L is issued- usually a set of three. Whoever presents one of those Original, Negotiable B/L can take possession of the goods. A B/L can be either negotiable or non-negotiable.

Non-negotiable (or "straight") B/L: Indicates that the shipper will deliver the goods to the buyer and that title of the goods has not been transferred to the shipper (i.e., the buyer or seller "owns" the goods while they are being shipped). This type of B/L is often used when payment for the goods has already been made in advance.

Negotiable (or "shipper's order") B/L: Serves as a title document to the goods, issued "to the order of " a party, usually the shipper, whose endorsement is required to effect its negotiation. It can also be issued "to the order of " the buyer's bank as part of a documentary credit/letter of credit stipulation so that

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when the buyer's bank receives the Original B/L, they can endorse it over to the buyer at the time of payment for the buyer to clear the goods at customs. Sometimes the negotiable B/L may be consigned "To Order" without reference to a company. A negotiable B/L can be bought or traded while the goods are in transit, whereas a "Straight" B/L is non-negotiable and is consigned to the buyer.

The B/L is frequently electronically manifested by the shipping line company using the data sent by the shipper or its agent. Bills of Lading also include a "notify party" (usually the buyer or their agent) so that when the vessel arrives at the port of destination, the carriercan notify the party that the goods are available, are in need of customs clearing, or are ready for pick up. Usually the importer can pick up the goods after customs clearance and duties are paid. "Freight Collect" means the consignee pays the freight charges as well. "Freight Prepaid" means the shipper pays the freight charges, but not customs clearance unless the terms are "delivered duty paid". If Certificate of Insurance: This document indicates the type and amount of insurance in force on a particular shipment for loss or damage while in transit. It is sometimes referred to as Marine insurance, but may cover the entire voyage.

Certificate of Inspection: Some customers will require a "pre-shipment inspection" to satisfy their own requirements or local regulations, according to an industry, government, or carrier specification. Neutral organizations specialize in these types of certifications, whereby an inspector checks the goods in question prior to shipment. Sometimes an inspector can look at a sample, but other times inspection must occur when the goods are packaged to issue a certificate.

Certificate of Free Sale: This form may be required by the importing country to ensure that the goods offered for entry comply with domestic requirements for sale in the
U.S. It is often required for agricultural, medicinal, or cosmetic products and can be issued by the VEDP or U.S. FDA.

Certificate of Authentication (Apostille): An original document that has been notarized may require "authentication" by the Secretary of the Commonwealth. An Apostille certificate will be issued according to the country (language) of destination, confirming the status of the notary who has witnessed the original document. Phytosanitary Certificate: Primarily a document required to import goods into the U.S., confirming compliance with phytosanitary safety regarding agricultural and animal health standards.

Special Documents
Declaration of Dangerous Goods (DGD): A DGD declares the nature, quantity, and quantity of hazardous materials and reports the proper classification for each item.

ATA Carnet
A Carnet, sometimes referred to as a "merchandise passport", is used for shipping goods to countries on a temporary, duty-free basis only. For a fee, this passport allows a company to ship needed materials to foreign trade shows or conduct repairs overseas. Within a year, the materials must return in order to avoid a hefty fine.

Documentary Letters of Credit (L/C): A letter of credit is a document issued by a bank committing to pay the seller/exporter a stated amount of money on behalf of the buyer/ importer as long as the specific terms and conditions are met. Of all shipping documents, errors or making changes to the L/C are the

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most costly and time consuming because of the risk of payment in error. Knowledge of the proper forms required, along with uniformity and document control, will help exporters prevent errors in shipping documentation, save processing time, create good file management, improve customer service, and of course, avoid costly fines.

Documents Related to Transport

Documents related to transport of export goods are explained below:

Shipping Documentation

Shipping documents are the key to international trade, and have been used for thousands of years. Documents outline the sale, shipment, and responsibilities of each party so that the full transaction is understood and complete without delay or additional costs. Documents also ensure compliance with applicable regulations.

Using an experienced Freight Forwarder will help you to avoid problems and secure your relationship with your customers. Consider providing your Forwarder with a suitable "letter of authorization" to act as your agent on overseas documentation matters.

Although not a required or standardized document, preparing a thorough and well organized "Shipper's Letter of Instructions" (SLI) is a good practice for your company to establish. You can give your Forwarder limited authorization and initial instructions with an SLI as soon as the shipment details emerge, which allows time to prepare documents, make arrangements, and ask questions. Although a Freight Forwarder is not absolutely required for a successful export shipment, a licensed Customs House Broker is required to clear goods imported into any country, including the United States.

Below are some factors to consider when determining which documents are needed for a particular shipment:-

- Country of origin and destination, as well as transshipment
- Mode of transportation — truck, rail, ocean, air, pipeline
- Commodity — agriculture, livestock, safety/security, end-use, intangible- software, service
- Size — value, volume, weight, dimensions
- Parties to the transaction — shipper, consignee, agents, brokers, banks
- Based on these factors, many of the following documents may be required for an international shipment. These documents can be prepared by the exporter and then processed or forwarded by a Freight Forwarder.
- Invoices — Commercial, Pro-forma, Consular
- Packing Lists — Dock, or Warehouse, Receipt
- Bills of Lading (B/L) — Ocean B/L, or Motor/Truck or Air Bill, or Way Bill
- Electronic Export Information (formerly the Shipper's Export Declaration, or SED) is not an actual document but still a very important part of the export process
- Certificates of Origin (C/O), sometimes country-specific — NAFTA C/O, Israel C/O
- Declaration of Dangerous Goods (DGD) — Hazmat, placards
- Certificates — Insurance, Free Sale, Inspection, Phytosanitary, Authentication (Apostille)
- Miscellaneous: Letters of Credit, ATA Carnet, Duty Drawback

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1. Shipping Order

Exporter should apply to a shipping company in order to reserve the required space for shipment of export cargo. After getting and scrutinizing the application, shipping company will send shipping order to the exporter confirming the space arranged in the ship for shipment. Shipping order shows ship details, route, approximate dates on which the ship will reach various ports, freight details and other relevant terms and conditions of shipping service.

2. Mate's Receipt

Captain of the ship will issue Mate's receipt after the goods are loaded on the board of the ship. It is prime facie evidence shows that the goods are loaded on the board of the ship. Master of captain of the ship will inspect the goods and packaging, when the goods are in the process of loading over the board of the ship. Any discrepancy of defective is noticed in the goods or packaging, a note about the specified discrepancy of defective is made on the Mate's receipt

3. Bill of Lading

Bill of Lading is issued by the shipping company after the goods are loaded on the board of the ship. Master of captain of the ship will inspect the goods are loaded on the hoard of the ship. it is prepared based in the Mate's receipt issued by the master of captain of the ship . Bill of Lading is an acknowledgement of goods loaded on the board of the ship. It is an undertaking of the shipping company to deliver the goods in the condition in which it is received and to execute the terms and conditions of carriage agreed between exporter and Shipping Company. Hill of Lading is a document of title to goods. Delivery of goods can be made by the person in whose favour the bill of lading is endorsed. As per the requirement of the exporter, Bill of Lading is also made available to exporter. Exporter can use any one of the original copies of bill of lading for negotiation with the bank. Bill of lading can be made transferable by endorsing in favour of a specified person or to his order. Bill of Lading may be endorsed in blank.

Contents of Bill of Lading

i. Name and other details of rthe ship and shipping company
ii. name of the port of loading
iii. name and address of the exporter
iv. name and address of the importer (in certain cases this column may be either blank or in favour of a specified person or his order).
v. name and address of the person to be notified when the goods reach the port of destination
vi. details of name of the port of discharge and delivery
vii. details of freight paid or payable (to pay to collected)
viii. Description of goods
ix. number of packages, kind of packages and marks and numbers on packages.
x. remarks about condition of goods, if any.

Type of Bill Lading

i. Claused bill of Lading
ii. Clear bill of lading
iii. Through bill of lading
iv. Direct bill of lading

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v. Transshipment bill of lading
vi. Freight paid bill of lading
vii. Freight collect bill of lading
viii. Shipped bill of lading
ix. Received for shipment of lading
x. Stale bill of lading.

If the captain or master of the ship find, while inspecting the goods, that the goods are in damaged condition or packages are damaged, the captain will make a note in bill of lading about the damage of goods or packages. This bill of lading is known as claused bill of lading or dirty bill of lading.

While inspecting the goods, if the goods and packages are found in good condition a clear bill of lading will be issued by the captain of the ship. Sometimes contract of carriage of goods between exporters and carrier may cover transport by land on other sea carriers in addition to the main carriage of goods by sea. In order to cover the all stages of journey, a though bill of lading is issued. Direct bill of lading in issued when the same vessel carried the goods from the port of shipment to port of destination transshipment bill of lading is issued when the goods are transshipped from one ship to another ship for a part of the journey.

The second ship will carry the cargo for the remaining journey, and deliver the goods in the port of discharge freight collect bill of lading is issued when the imported in supposed to pay freight. Shipped bill of lady means that shipping company has received goods on board of the ship received for shipment bill of lading means that the goods are under the custody of the shipping company. It means that the goods are received for shipment. Generally, bill of lading should reach the importer before the goods reach the port of discharge (import Port).they only importer can take necessary steps to take delivery of goods. If the bill of lading is delayed to reach the importer, he cannot take the delivery of goods in time. He has to incur extra cost of demurrage. This type of bill of lading known as stale bill of lading.

4. Airway Bill

It is issued by the airline company. Within the goods are transported by air, the airline company will issue airway bill to the exporters. Airway bill is an evidence of contract of carriage. It is not document of title to goods, whereas bill of lading in a document of title of goods. Under airway bill the goods are delivered to the party mentioned by the exporter.

5. Shipping Bill

Shipping bill is an important document used in export transactions. It is an important document required by the customs authorities for certification of export transaction. It is used for claiming duty drawback and other export incentives. Shipping bill is classified into three types. They are

(i) Drawback shipping bill,
(ii) Dutiable shipping bill and
(iii) Duty free shipping bill.

This classification is based on the type of goods exported i.e., drawback goods, dutiable goods and duty free goods.

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Drawback shipping bill is used for drawback goods. Exporters can claim duty drawback or such goods. Dutiable shipping bill is used for dutiable goods and exporter should pay duty. Duty-free shipping bill is used for duty free goods. Exporter need not pay duty for such goods. Drawback shipping bill is Green colour for sea transport and for air transport. Duty free shipping bill is White color for sea transport and Pink color for aim transport. In the electronic data interchange system color of the shipping bill is not given importance and purpose is given due importance.

Contents of Shipping Bill given below

i. Name, address and IEA number of exporter and name and address of the consignee
ii. Name of the ship
iii. Name of the shipping agent
iv. Description, quantity and value of goods
v. Type of cargo (bulk, liquid)
vi. Number of packages, details of markings and numbers on packages, container numbers.
vii. Port of loading and port of discharge
viii. Country of destination
ix. Nature of export continent
x. Customs house agent LIA Number
xi. Invoice number and date
xii. AR4/AR4A number and date

Shipping bill is prepared in five copies. The five copies are

(i) Customs and statistical copy,
(ii) Port trust copy,
(iii) Drawback copy,
(iv) Export promotion copy and
(v) Exporter's copy.

Marine Insurance Policy

Marine insurance is contract between policy holder (exporter) and insurance component. The insurance company will issue marine insurance policy to the exporter. Marine insurance policy in a basic document related to transport of exportable goods is indemnified the risks to the goods when the goods are transported by sea. Marine insurance policy is taken to cover the risk related to goods from the exporter's warehouse to importer's warehouse if the export contract is on CIF (cost, Insurance and Freight) term, exporter has to take necessary steps to take marine insurance policy and pay premium for the policy. Marine insurance policy is freely transferable by endorsement and delivery.

Contents for Marine Insurance Policy

i. Name and address of the insurance company
ii. Name and address of the insured (name of the exporter in whose favour the insurance is effected)
iii. Marine insurance policy certificate number and date of issue.
iv. Name of vessel (ship)
v. Port of loading and poet of discharge
vi. Description of goods, number and kind of packages and marks and number on packages

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vii. Insured value, period of insurance and terms of insurance
viii. Clauses of insurance (risk or risks insured against)

Post Parcel Receipt
Post Parcel Receipt is issued by the postal authorities when the goods are exported through post. It is and evidence of receipt of goods for export and it is not a document of title to goods. The goods are delivered to the consigned mentioned by the exporter. The terms of payment such as documents against payment and document against acceptance can be used while exporting goods through post also. It export through post, goods are consigned in the name of the concerned banks. Prior permission should be obtained from the concerned banks in this regard.

Port Trust Document
Port designs their documents (forum) for exporter's use to pay port changes. The documents are used by the port authorities to record the details of transactions relating to shipment of goods in their ports. The port trust documents are designed by the ports based on the information required to they about export transaction. Information regarding cargo handled and port charges received are also recovered in the port trust documents. These documents are used by the ports for their internal management. Export application dock challan and port trust copy of shipping bill are different names of the port trust documents used in different ports in our country.

Document Related to Payment

Documents related to export payment are explained below:

1. Letter of Credit
Letter of Credit is one of the most important documents used in the export trade. it is defined as "a promise by the overseas importer through his banker where letter of credit is opened by him, to the exporter through his banker (known as negotiating banker) to pay the proceeds on the receipt of documents certifying the shipment of goods". It is defined by the Jacob Cherian in his book, Export Marketing as "a written undertaking issued by the buyer's bank agreeing to pay a certain sum of money within a stipulated period against a specified set of documents." letter of credit is classified into various types. They are irrevocable and revocable letter of credit, with or without Recourse letter of credit, confirmed and unconfirmed letter of Credit.

2. Bill of Exchange
It is a negotiable instrument and can be transferred to another person. it may be either sight bill on time (usance) bill. Sight bill is paid immediately on the presentation of documents to the importer. Time bill on usance bill is paid on a fixed date mentioned in the bill (usually after 30,60, or 90 days) after presentation of documents to the importer.

When a draft is drawn on a foreign bank, it is named as foreign draft or bill of exchange. It is a method of collection export payment from the importer through bank. bill of exchange is defined as "an unconditional order in writing addresses by one person to another, signed by the person giving it, requiring the person to when it is addressed to pay or demand or on a fixed on determinable future time a sum certain in money to or to the order of a specified person, or to bearer".

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3. Bank Certificate of Payment
This a certificate issued by the negotiation bank (exporter's bank) stating that the export payment is received from the importer as per the exchange control regulations of the government of India.

Document Relating to Inspection
Document relating to inspection of export goods are explained below:

1. Certificate of Inspection
Exporters should obtain inspection certificate from the export promotion Agency as per the export (quality control and inspection) Act, 1962 and it is obligatory also to the exporters. Exporter should apply to the export inspection agency in the prescribed format for export cargo inspection. After inspection, export inspection agency will issue verification of inspection. Exporter should submit this document to the customs authorities to obtain then approval from shipment of export cargo. Exporter should attach the following documents with his application for inspection to the export inspection agency:

1. Copy of the commercial invoice
2. Drafrt/cheque for the fee payable for inspection
3. Copy of the export contract and
4. Declaration of the importer's technical specifications of quality and /or a sample approved by the importer is support of the declaration of specifications.

Documents Related to Exchange Control
Exporters should observe exchange control regulations in getting export payment from foreign countries. Exporters should take steps to get export payment from foreign countries. Exporters should take steps to get export payment within 180 days from the date of shipment.

Otherwise, notice will be served to the exporters and necessary action will be taken against the exporter. Exporter should give valid reasons and justification from the delay in getting export payment. In the recent EXIM Policy (2002) exporters are permitted 360 days from the date of shipment to get export payment from foreign countries. Exporters should take steps to get export payment within 360 days from the date of shipment

1. Guaranteed Remittance Form (GR)
Exporters are directed by the RBI to declare in time the amount of foreign exchange they receive in every export consignment. The declaration of exporter should be made in a prescribed form. This form is known as GR-I form. This form is prepared in triplicate. Exporter submits the original GR-1 Form to the customs authorities as the time off shipment.

Duplicate and triplicate copies of GR-1 form are submitted by exporter to the bank (authorized dealer in foreign exchange) help8ing is collection of export payment and export payment is routed through this bank. After the export payment is received from the importer, the hank will send duplicate copy of GR-1 form to the RBI certifying for the export money received.

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Contents of GR-1 Form

- Name, address and code number of exporter
- Name and address of the consignee
- Name of the negotiation bank (bank through which payment is to be received)
- Name of the ship/airline
- Date of shipmen, port of shipment and country of destination
- Nature of export contract (FOB,CIF,C&F)
- Describing of goods, quantity of goods, export value, customs assessable value

2. Post Parcel (PP) Form

If the export is made through post parcel, exporter should declare the details of export in post parcel form. Exporter should submit this form to the bank (authorized foreign exchange dealer) for counter signature.

The bank will counter sign and return the original copy of the pp form to exporter. the counter signed pp form is submitted to the post office with the parcel (export goods for export. bank retains the duplicate copy of the pp form., exporter will submit relevant export documents within 21 days from the date post parcel to the bank for negotiation and collection. the duplicate pp form will be referred by the bank for documents negotiation and collection of behalf of the exporter.

3. Value Payable. Cash-On –Deliver (VP/COD) Form

Exporter should declare export details in VP/COD form in the export is made through post parcel and payment arrangement is made though postal channels value payable on cash on delivery basis. This form is to be submitted to the post parcel (export goods) for export.

Documents Relating to Excisable Goods

Documents relating to excisable goods are explained below

1. AR4 form

AR4 form is used to claim rebate on excise duty. Exporter should submit this AR4 form to the central excise officials before removal of excisable goods from the factory for export. Exporter should submit this AR4 from to customs authorities as the tome of shipment. After shipment, the customs authorities will certify, by endorsement in AR4 form that the goods have been shipped. Exporter can claim rebate or excise duty on the basis of endorsement made by the customs authorities.

Form C

Form C is used to apply for rebate on excise duty for export goods other than vegetables, non essential oils and tea exported by sea. This form is also submitted to central excise officials from necessary action and getting rebate on excise duty. The documentary procedure of AR4 form is applied for form C for claiming rebate on excise duty.

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Export and Import Finance

Export means any goods which are to be taken out of a country to a place outside the country. The exports are classified into the following categories:

a. Merchandise Exports;
b. Services Exports;
c. Project Exports;
d. Deemed Exports.

Export finance mechanism and institutional support are vital for the promotion of exports. Today, A number of financial institutions exist that provide financial assistance for export.
The various institutions involved in the provisions of finance in India are:

- Reserve Bank of India,
- Export – Import Bank of India,
- Commercial Bank,
- Export Credit and Guarantee Corporation and
- Industrial Development Bank of India.

The RBI formulates the lending policies and guidelines and all the nationalized banks, private and foreign banks are required to operate within the policies and guidelines laid down by the former. It provides re-financing facilities of the short term credit sanctioned by various commercial banks and thereby it facilitate the lending operation of the latter.

The EXIM bank is the main source of long term export finance to the exporters of India. It either solely or in participation with other commercial banks constitutes the primary source of export finance. Generally, funds given by these banks are in the form of both pre – shipment and post – shipment finance.

Next to commercial banks, the fourth financial institution involved in export financing is ECGC. Their main functions are: providing insurance cover to Indian exporters; extending financial guarantees to banks that extends credit to exporters etc.

Finally, IDBI has been operating several schemes for providing credit to Indian exporters. Further, refinancing facilities are also provided by IDBI to commercial banks against the medium term export credit given to exporters.

The EXIM Bank of India came into existence on 1st January 1982, and started functioning from March 1st 1982. It has its headquarters' in Mumbai and its branch offices in important centre in India and abroad. EXIM Bank is a wholly government – owned financial institution, set up for the purpose of financing, facilitating and promoting India's foreign trade. The main focus of the EXIM bank of India is export finance related to export of capital goods and other manufactured goods, consultancy and technology services involving deferred payment terms. The bank also provides Pre – shipment finance where the production process exceeds months. In addition to extending non fund based assistance by way of guarantees on behalf of Indian exporters for construction, turnkey and consultancy projects abroad, the EXIM bank provides various financial assistance for the export of Indian goods under its

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various schemes of assistance such as direct assistance to exporters includes post – shipment term finance; pre – shipment credit; term loans for export – oriented units; overseas investment finance; finance for export marketing, loans to foreign government, importers and financial institutions include overseas buyers' credit; lines of credit; re-lending facility to banks abroad, re- finance facility for banks in India include rediscounting of export bills; small- scale industry export bills; refinance of export credit; bulk import finance.

Finance is the basic requirement of all business activities. The need for export finance arises as soon as the exporter received export order. Export financing transactions come to an end when the goods are loaded on the vessel and export proceeds received from importer. Exporters should plan in advance is arranging export finance from the beginning and to the end of the export trade for sanctioning export finance. Export financing is a complicated lending transaction because is involved traders of two countries and foreign exchange transactions. it export trade, buyers and sellers are far away and sellers do not know the socio, economic and cultural environment of the end users of their products. Exporters have to exercise greater care is allowing credit to importers in other overseas market. They should be very careful regarding terms of payment. Export document procedures should be duly fulfilled.

competition in would market, both for consumer and capital goods, is becoming increasingly intensified and, in this situation, the bargaining power has shifted from the seller to the buyer, who tend to dictate terms with regard to price, quality and delivery schedules and above all, insists on appropriate credit terms. The availability of an adequate supply of credit as reasonable rat, therefore, greatly facilities the task of the exporter and serves as an incentive to augment his export effort. he depleting foreign exchange position is many developing countries makes is imperative for importers to ask for credits of varying duration, and the credit terms offered often influence the buyer's choice of supplied and thus the source of supply.

According to David Kinley, "by credit we mean the power which one person has to induce another to put economic goods as his disposal for a time on promise of future payment. Credit is thus an attribute of power of the borrower". Thus the main elements of credit are: the element of trust, the element of capital and asset, the element of amount of credit and element of duration of credit.

INCO Terms

Price quotations to the overseas buyer are quoted in following internationally accepted items

Ex-Works (EXW)

'Ex-works' means that the seller's responsibility is to make the goods available to the buyer at works or factory. The full cost and risk involved in bringing the goods from this place to the desired destination will be borne by the buyer this term thus represents the minimum obligation for the seller. It is mostly used for sale of plantation commodities such as tea, coffee and cocoa.

Free Carrier (FC)

'Free carrier' means the seller's obligations are fulfilled when the goods are delivered to the carrier named by the buyer at the named place. The term may be used for all modes of transport including multimodal transport.

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Free Alongside Ship (FAS)
Once the goods have been placed alongside the ship, the seller's obligations are fulfilled and the buyer notified. The seller has to contract with the sea carrier for the carriage of goods to the destination and pay the freight. The buyer has to bear all costs and risks of loss or damage to the goods from that point. The seller is required to clear the goods for export.

Free On Board (FOB)
The seller's responsibility ends the movement the contracted goods pass the ship's rail at the port of shipment named in the sales contract. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that point. The seller is required to clear the goods for export.

Cost and Freight (CFR)
'Cost and Freight' means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must on his own risk contract for the carriage of the goods to the port of destination named in the sale contract and pay the freight. This being a shipment contract, the point of delivery is fixed to the ship's rail and the risk of loss or damage to the goods is transferred from the seller to the buyer at the very point. As will be seen though the seller bears the cost of carriage to the named destination, the risk is already transferred to the buyer at the port of shipment itself.

Cost, Insurance, Freight (CIF)
The term is basically the same as CFr, but with the addition that the seller has to obtain the insurance at his cost against the risk of loss or damage to the goods during the carriage.

Cost Paid To CPT
'CPT' means that the seller delivers the goods to the carrier nominated by him, but the seller must, in addition pay the cost of carriage necessary to bring the goods to the named destination. The buyer bears all risks and any other costs after the point of delivery. The seller is required to clear the goods for export.

Carriage and Insurance Paid To (CIP)
CIP is the same as CPT, with the addition that the seller is also required to produce the insurance at the buyer's risk of loss of or damage to the goods during the carriage.

Delivered At Frontier (DAF)
The term is primarily intended to be used when the goods are to be carried by rail or road. The seller's obligations are fulfilled when the goods have arrived at the frontier, but before the customs' border of the country named in the sales contract.

Delivered Ex-Ship (DES)
This is an arrival contract and means that the seller makes the goods available to the buyer in the ship at the named port of destination as per sales contract. The seller has to bear to the full cost and risk involved in bringing the goods there. The sellers' obligations are fulfilled before the customs border of the foreign country and it is for the buyer to obtain necessary import licence at his own risk and expense.

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Delivered Ex-Quay (DEQ)
Ex-quay means that the seller makes the goods available to the buyer at the named quay. As in the term 'ex-ship' the points of divisions of cost and risks coincide, but they have now been moved one step further from the ship in the quay or wharf i.e. after crossing the customs border at destination. Therefore, in addition to arranging for carriage and paying freight and insurance the seller has to bear the cost of discharging the goods at the quay.

The buyer is required to clear the goods for import and to pay for al formalities, duties, taxes and other charges upon import.

Delivered Duty Unpaid (DDU)
'DDU' means that the seller delivers goods to the buyer, at the port of destination. The seller has to bear the costs and risks involved in bringing the goods thereto. The buyer has to get the goods unloaded and cleared for import, by paying the applicable duty.

Delivered Duty Paid (DDP)
This term may be used irrespective of the transport involved and denotes the seller's maximum obligations as opposed to 'ex-works'. The seller has not fulfilled his obligation till such time that the goods are made available at his risk and cost to the buyer at his premises or any other named destination. In the latter case the necessary documents (e.g., transport document or warehouse warrant) will have to be made available to the buyer to enable him to take delivery of the goods.

Export Finance
Finance is the life blood of any business activity. Finance is the most significant aspect In export trade. Once the exporter order is received, production of exportable commodities should take in time is required adequate finance for procuring the needed raw materials and other components. In some cases, materials are to be imported from foreign is required foreign currency. Unless the financial requirements for exports are fulfilled, export order cannot be met in the scheduled time,. Further, getting payment for the export cargo will take some time. Adequate credit facilities are to be extended to the exporters till they receive export proceeds from foreign courtiers. Realizing the significance of export finance and to encourage exports, the |RBI has come forward to extend export finance to the Indian exporters as concessional rate.

There are two types of export finance. They are,

i) Pre-shipment credit or packing credit and
ii)Post- shipment credit

The RBI has defined pre-shipment credit as "as any loan to an exporter for financing the purchase, processing, manufacturing or packing of goods."

Pre shipment credit is given by the commercial banks for purchasing and processing of materials, manufacturing of exportable commodities and packing of such commodities pre-shipmen credit is granted by the commercial banks for a period of 180 days from the date sanctioning the credit. Further extension will be given for a period of 90 days, provided adequate reasons are given by the exporters for such extension a period of 90days provided adequate reasons are given by the exporters for such extension.

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Interest rate for the Pre-shipment credit is lower than the normal rate of interest. Concessional interest rate is charged for pre-shipment credit in order to maintain price competitiveness in the overseas market and to reduce interest burden to the exporters Commercial banks charge a rate of 11 percent of pre-shipment credit up to 180 days pre- shipment credit between 180 days to 270 days will cost exporters 12 to15 the interest rate for pot-shipment credit of usance bill beyond 90 days is 11 percent. The concessional rate of interest is one of the important incentives provided by the Government for export trade. In order to reduce the interest rate for export credit, the RBI has reduced the export refinance rate 9% to 7% exporters should fulfill all the procedures prescribed by the commercial banks for export credit. Exporters should submit export order of letter of credit along with the application form for pre-shipment credit.

Exporters should give an undertaking that the advance will be used exclusively for the purpose of procuring /manufacturing/ shipping of commodities means for export as given in export order of Letter of Credit. Banks will sanction the pre-shipment credit after verifying all the documents required for it. the credit worthiness of the exporter, their capacity to produce exportable commodities and the reputation of the organisation are also assessed by the banks before sanctioning pre-shipment credit. Exporters are advised to get appropriate insurance policy for export credit form the Export Credit Guarantee Corporation (ECGC). Exporters should get Packing Credit Guarantee also from the ECGC. Insurance Policy and guarantee from the ECGC are insisted by the commercial banks for sanctioning pre-shipment credit Exporters can avail pre-shipment credit in foreign currency also.

Post-shipment credit refers to any loan or-any other credit provided by any institution to an exporter of goods from India from the date of extending the credit after shipment of goods o the date of realization of export proceeds and included any loan on advance granted to an exporter, on consideration of or on the security of any drawback of any case receivable by way of incentives from the Government.

Dr.Varma and Agarwal, in their book Foreign Trade Management have specified the need for export finance.

i. Procuring raw materials and components to process and product exportable commodities,
ii. Refinancing facilities so as to get the proceeds of bill after the shipment,
iii. Making availability of funds until the export benefits are realized and
iv. Refinancing facilities for long term credit offered for the export of products.

The RBI in its letter dated January 31 03 informed banks to use foreign currency funds borrowed in terms of Para 4(2)(i) of notification no FEMA 3.2 000 as also foreign currency funds generated through by sell swaps in the domestic forex market for granting export credit, subject to the aggregate gap limit approved by it in simple terms, it means that banks can give such loans by exporters. The directive to this effect from the industrial and export credit department of RBI was meant to provide flexibility to banks to source foreign currency funds for granting PCP/EBR to exporters.

Pre-shipment means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favor or in favor of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for

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export from India having been placed on the exporter or some other person, unless lodgment of export orders o letter of credit with the bank has been waived.

Post-shipment Credit means any loan or advance granted or any other credit provided by an institution to an exporter of goods from India from the date of extending credit after shipment of goods to the date of realization of export proceeds.

Banks are allowed to rediscount export bills abroad at rates linked to international interests' rates in the post shipment stage. With a view to making credit available to exporters at internationally competitive rates, authorised dealers have been permitted to extend Pre- shipment Credit in Foreign Currency (PCFC) to exporters for domestic and imported inputs of exported goods at LIBOR/EURO LIBOR/EURIBOR related rates of interest.

An Exporter has the Following Export Finance Options

To avail of pre-shipment credit in rupees and then the post-shipment credit either in rupees or discounting/ rediscounting of export bills under EBR Scheme. If the pre- shipment credit is n foreign currency, the post shipment credit has necessarily to be under the EBR scheme since the foreign currency pre-shipment credit has to be liquidated in foreign currency

Choice of currency

The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc. To grant exporters greater operational flexibility, it will be in order for banks to extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. For example, an exporter can avail of PCFC in US Dollar against an export order invoiced in Euro. The risk and cost of cross currency transaction will be that of the exporter.

The foreign currency balances available with the bank in Exchange Earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency Accounts (RFC) and Foreign currency (Non-Resident) Accounts (Banks) Scheme could be utilized for financing the pre- shipment credit in foreign currency and EBR.

Hence banks allow an exporter to book forward contracts on the basis of a confirmed export order prior to availing PCFC.

Finance and Export Trade

The reserve bank of India export import banks of indie development finance institutions and commercial banks both private and public sector banks are actively involved in providing export finance. The RHI regulates interests' rate for export finance. The export credit and guarantee corporation of India is also involved in the process of export finance transaction. Commercial banks provide two types of export finance. They are pre-shipment finance and post-shipment finance.

Commercial banks are directed by the RBI to provide 12% of their new bank credit for export finance. Export finance is needed to exporters to identify emerging export market and to develop exportable products, establish production infrastructure and facilities, procure raw materials and other assemblies for producing export cargo, undertake export promotion activities and fulfill financial requirements during the period between shipment of goods and the actual receipt of payment.

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RBI Initiatives for Export Finance

While the bank rate gas come down to 7 percent, export credit remains comparatively costlier as 10 per cent in to case of both pre-shipment as well as post-shipment credit. The Federation of Indian export organisation (FIEO) president KK Jain met RBI governor DrBimalJalan to seen reduction in export credit and also waives of bank processing charges in the case of exports. Industry sources said the apex bank's chief has given positive indications regarding reduction in export credit, without going into details of the quantum of reduction.

Interest charges of export credit stood as 11 per cent as of April 1998 while the bank rate stood as 1 per cent. Subsequently, bank rate came down first t 8 percent and then to 7 per cent. Interest charged on export credit came down to 10 percent with effect from April 1 1991 but has been staying as the same level despite a two percentage point reduction in bank rate since then.

Exporters have also pointed out that rival exporters based in other countries enjoy cheaper export credit and this blunts the competitiveness of the Indian industry. China for example, charges only 3.2 percent interests on export credit while Japan offers credit to exporters as 1.38 percent.

Indonesia charges 2.17 percent interest on export credit while Singapore and Taiwan charge, respectively, 5.7 percent and 4.9 percent.

The FIEO president also informed the RBI chief that service charges imposed by banks stand as 13.97 per cent and this is in addition to the cost of export credit which stands as 10 per cent. Export credit outstanding increased from ` 38885 crore in 1998-99 to ` 44 872 crore in 1999-2000 in line with the growth in the country's exports. The export community accounted for 10.7 per cent of the total new bank credit outstanding in 1999- 2000 as compared to 11 per cent in 1998-99.

Exporters have been demanding that the government should provide cheaper credit so that Indian export could become internationally competitive. However, officials feel that any subsidy of export credit may not be in line with norms laid out by the world trade organisation.

The central bank slashed export credit rates by one percentage point across the board, raising hopes of a further reduction in key interest rates. Expectation of a cut in the bank rate pushed down forward premium on the dollar immediately after the export rate cut was announced.

in addition, the RBI in consultation with the government, announced a special financial package for large value exports of six products pharmaceuticals, agri chemicals, transport equipment, cement, iron and steel and electrical machinery, which are internationally competitive and gave high value addition.

Manufactures exporters in these products with export contracts of ` 100 crore and above in one year will be eligible for the special financial package. This will be valid for one year from October 1, 2001.

Exporters covered under the special financial package will be extended credit for an extended period up to 365 days as the pre-shipment as well as post-shipment stage the rates of interest which are now decided by hanks on a commercial basis up to a maximum of prime lending rate plus 4 percentage points, has now been capped at PLR+0.5 per cent for the extended period of pre shipment and post shipment credit. This measure, applicable for large value exports is over and above the reduction in

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ceiling rates on export credit. Export will also be allowed to import raw material on credit terms for periods beyond 180 days as one percentage point above the prevailing Libor rate. EXIM bank has been permitted to extend buyers credit of ` 200 crore without reference to RBI. Similar permission will also be granted to the participating banks.

Importance of Export Finance

The importance of export finance is present below

1) **It enhances exports in the competitive market**; export finance paves the way to increase exports. Increasing exports are essentials for a developing as well as developed country. But export market is operating in the competitive environment. Hence, the government or banking institutions usually extend concessional credit to its exporters, who are is need of such credits to fulfill their export obligations.
2) **Technological Development**: the degree of technical know-how is very low in less developed and developing countries. So, less developed countries hire the services from other developed countries but their charges are very high. Huge finance is needed to the less developed countries to repay service charges. Export finance is needed to pay such charges.
3) **Easier terms and conditions**: if the credit is available on easier terms, exporters will be in a position to sell the goods to the importer on easier payment terms.
4) It is a source for the economic development of nation. Developing countries are having deficiency of foreign exchange reserve to copy with their development needs. Exporters obtain long-term export credit from specialized financial institutions to meet import commitments. Thus, export finance does not create pressure over foreign exchange position and help for economic development.
5) **Balanced growth**. The deficiency of finance is one of the main constraints for economic development of developing countries. In this context, export finance contributed to economic development and helps to establish balanced industrial development of different nations
6) It reduces adverse balance of payments. Adverse balance payment creates serious consequences on development activities of any nation. With sufficient export finance, the manufacturers of a country may produce more and export more to different markets in the world. Increase in export earnings will help to solve balance of payment of crisis.
7) It helps for sales promotion. The various sales promotion programme like advertising, publicity, trade fairs and exhibitions, etc., need adequate fiancé. Export finance can be used for undertaking aggressive export promotion measured to increase export market.
8) It enhances customer service. Export finance is needed for product adaptation, improvement of quality, adding new uses to the product and to use an appropriate pricing method to increase export performance.
9) Export finance fulfils short, medium and long-term financial needs. Exporters need short-term medium-term and long term finance to meet their production and distribution requirements. Banks provide short-term credit extending to a period up to one year, and other terms of financial needs are met from other national and international financial institutions. Long-term credit helps to bring modernization and adoption of latest technology.

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Methods and Sources of Export Finance

The main methods of export finance can be grouped into two. They are

1) Short-term Finance, and
2) Medium and Long-term Finance

Short-Term Finance

Short term fiancé facility is extended for a period from 30 days to 180 days. it is granted by the commercial banks for import-export trade in consumer goods and industrial goods like small machines, commercial vehicles, spare parts, etc.

The main importance of short term finance to export is presented below:

1) Producing raw materials,
2) Manufacturing and processing of making advances to other producers from whom the exportable goods are ordered.
3) Meeting expenses of packing, handling, internal transport and to meet insurance and warehousing charges, and
4) Shipment and other related needs.

The requirement of short-term finance to the importer is as follows

1) For payment of advance to the exporter
2) For meeting the shipping charges, insurance etc.
3) To pay duty is obtaining import licence etc.

The main short term credit or finance included pre-shipment finance and post shipment finance. They are explained below.

Pre-Shipment Finance

Pre-shipment means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favor or in favor of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order with the exporter. the maximum period for which any loan on advance may be granted or any other credit facility may be provided does not usually exceed 180 days, on such extended period as the central bank of the exporting country may allow. normally, there are two ways open to an exporter to obtain license as the pre-shipment stage. they are anticipatory letters of credit and packaging credits.

Preshipment Finance in Foreign Currency

Exporters can get pre-shipment finance in foreign currency from commercial banks. Exporters can use the foreign currency for the purpose of importing necessary raw materials and other inputs for manufacturing exportable commodities. Pre-shipment finance in foreign currency is made available to the exporters who have a fire export order or a letter of credit. This type of financial arrangement is provided by banks for a maximum period of 180 days. Pre-shipment finance in foreign currency can be obtained any authorised dealers in foreign exchange.

Commercial banks provide pre-shipment finance to the exporters against the security of (i) Pledge,(ii) Hypothecation(iii) Export Trust Receipt, (iv) Incentives Receivables, (v) Red Clause Letter and (vi) Back-to-Back Letter of Credit Banks will insist exporters to take appropriate export credit, insurance

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policy from the export credit guarantee corporation of India limited, for providing pre-shipment finance. the following documents are required for getting pre-shipment finance from banks;(i) Confirmed export order,(ii) letter of credit,(iii) policy of export credit guarantee corporation,(iv) copy of audited financial statement and income tax assessment, v) copy of the CNO exporter code number and (vi) copy of the registration –cum membership certificate issued by an exporter promotion council.

Anticipatory Letters of Credit

Anticipatory letters of credit is also known as red clause letters of credit. it is a normal letter of credit, which contains a special clause (usually typed in red) authorizing the negotiating or confirming bank.

The red clause of letter of credit is generally opened to enable the exporter to procure material and executed the foreign buyer’s order without looking up to much of his own funds. the advance made to the exporter is of course as the risk of the opening bank and in restricted to the amount authorised in the red clause letter of credit. The bank must ensure that there are proper instructions on the red clause letter of credit as regards reimbursement of the amount to be advanced to the exporter. Generally, the reimbursement of the amount to be advanced to the exporter under a red clause letter of credit is provided by the negotiation of clear draft under the letter of credit, in which case the invoice submitted as the time of the negotiation of the documents should show a deduction to the extent of the drawings already made. Before advancing against a red clause letter of credit, it is advisable to ensure that the bank will be is a position to negotiate the bills drawn under the letter of credit.

Packing Credit

Packing credit is essentially a loan or advance granted a bank to an exporter to assist him in buying, packing and shipping the goods. These advances are generally made by commercial banks in different forms.

Forms of Advances

The main form of financing the exports as the pre-shipment stage is:

(1) Loans
(2) Overdrafts, and
(3) Case credit

(1) Loans

Under loan account, the entire amount is paid to the borrowed either in case or by transfer to his current as one time. Generally, its repayment is stipulated by installments. The main advantage of the loan system is that the loans are for predetermined short periods and have a built-in-programme of repayment. They are automatically reviewed by banks on the due dates. The main disadvantage of the system is in its inflexibility and the need for borrowers to negotiate fresh loans every time. Verification of the ultimate use of funds in difficult in this system compared to the case credit system.

(2) **Overdrafts**

An overdraft is a fluctuating account and its balance is sometimes in credit and sometimes in debit. Cheques drawn on a current overdraft arrangement enabled a customer to draw over and above his own balance up to the extent of the limit stipulated. Drawings and repayments are permitted as needed by the customer, provided the total amount overdrawn does not exceed the agree limit.

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(3) **Case Credit**
Case credits are ordinarily allowed against pledge or hypothecation of goods against personal security. If there is a good turnover in the account and quick movements of goods, a case credit limit is renewed periodically. The case credit system has the advantage of flexibility. it enables the borrower as to route all their case earnings through the account and keep drawings as the minimum level, thereby minimizing interest charges. the main disadvantage of the system is that the banks may find is difficult to ensure the end-use of funds due to its emphasis or the security aspect and the roll-over nature of credits.

Operational Mechanisms for Pre-Shipment Financing
Pre-shipment finance is essentially a working capital finance made available for the specific purpose of manufacturing of goods means for export. All costs prior to shipment would be eligible for financing under packing credits. The following points will usually be examined by the banks when considering proposals for export packing credits.

- The capacity of the exporter to execute the orders within the stipulated delivery schedules
- The ability of te exporter to absorb export business loss.
- Whether the quantum of finance asked for in or equal rate wint the company's turnover.
- The degree of arrangements made for the import of raw materials and its component
- The spread of risk
- Whether the exports are covered by irrevocable letters of credit
- The statue of the issuing banks
- The statue of the buyer's country in terms of economic and political conditions
- The availability of security such as export credit insurance cover
- Covering of exchange risk.

Post-Shipment Finance
Post-shipment finance is defined as any loan of advance granted or any other credit provided by an institution to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realization of export proceeds, in consideration or on the security of any drawback on any case payment by way of incentive from the market development assistance or any other relevant source. Thus post-shipment finance is given against.

1. Export bills drawn on foreign buyers, and
2. Export case incentives to be received by the exporter.

Negotiation of Bills
Bills of exchange either in Indian rupees of foreign currencies under a letter of credit of otherwise are offered to banks for negotiation such as sale of discount. normally, the bills drawn against a letter of credit are accepted without any difficulty due to the fact that banks do not have any risk depends, the negotiation of bill depends upon the following factors:

i. Credit Rating: Status report on both drawee and drawer in terms of both financial and moral standing in the prime consideration in accepting a bill for negotiation.
ii. Productcharacteristics: thenature, qualityandpriceoftheexportproductalsoinfluence the banker's decision in accepting a bill. for instance, banks will accept the bill if the product is of international standard and quality and offered as most competitive rates and bas good demand abroad.

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iii. Documentary requirements: in case of documentary bill, the banks will examine the documents like bill of lading and invoice or various aspects such as whether the bill is supported by all the documents mentioned in the letter of credit.
iv. Credit of negotiation: if the amount does not generally exceed the credit limit of the drawee a fixed by the bank, them the bills are accepted
v. Rate of Negotiation: the rate of negotiation mainly depends upon the currency in which the bill is drawn, the banking organization in the country concerned period of maturity etc. the banker treats the negotiation of until the final remittance is received. the banks consider the following factors is calculating such a rate:
   a. Prevailing rate of interest,
   b. The period which the bill has to run before maturity,
   c. Stamp duty to which the bill is liable in the foreign centre,
   d. Charges for collection which the foreign banks may make,
   e. Anappropriate allowance for possible delays of mails or other contingencies and the banker's own profit over the transaction.

   f. Collection of bills: the Sight Documents against payment as well as usance bills documents against acceptance can be offered to the banks of collection basis. banks send such bills to their foreign branch for collection of payment. Banks may give advance against such bills and is may take the following forms:
      (i) Cent percent advance: Bank may discount the bill of exchange by advancing to the drawer the full face value of the bills if a rupee bill of exchange has been drawn and received by the bank for discount with instructions from the drawees that in addition to face amount of the bill, the drawee is to pay interest, collection charges and foreign bill stamps.
      (ii) Percentage of advance; the usual procedure is that the bank will advance up to a certain percentage of the amount of cash bill of exchange depending upon the integrity and financial standing of the drawer. Besides, the collection charges are made on the full value of the bill.
      (iii) Percentageadvanceagainstpendingcollection; underthissystemthedrawerlimit is calculated as a percentage times of outstanding amount and the customer can draw, if he needs, up to the amount indicated by the drawing limit.

Sources of Short-Term Export Finance
The mail source of short-term export finance is presented below;

1. **Foreign Trade Financed by Exporter**
   This is one of the sources of export credit buy very few exporters will employ their capital to finance to finance for export. Exporter will employ this method when he is financially sound and he may consider supplying goods to the importer on the basis of credit. In this situation, exporter will provide credit to the importer on the following terms:

   i. Open Current Account: Generally, this method will operate between the exporter and importer who have long-term dealings. exporter sends the letter of rights to the importer. Importer makes payment within appointed time on the basis of the exporter's letter of rights. Interest is charged as certain rates if the importer delays the payment beyond the agreed time limit.

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ii. Open Account: Exporter ships the goods without financial documents to his advantage except commercial invoice. Sales on open account are settled through agreed periodic remittances. Considerable risk is involved in the open account method as seller carries no documentary evidences of transaction with him. Hence, this method is generally confined to interrelated companies.
iii. Payment by return mail: Under payment to return mail method, the seller ships the goods and a shipment advice is sent to the importer. the importer must make the remittance immediately of receipt of shipment advice.
iv. Payment against bills of exchange: under this method, the exporter ships the goods to the importer on the basis of bills of exchange drawn or importer's name. In addition to documentary bill of exchange, invoice, shipping bill and insurance are enclosed. The exporter sends the bills of exchange directly or through the bank for collection of payment.

2. **Foreign Trade Financed by the Exporter with the Assistance of his Bank**
Under this category, exported obtains bill of exchange from the importer which will remain with his for a certain period of time. After the expiry period the exporter accepts payment from the importer. Besides, the exporter can discount the bill from any commercial bank for finance if he needs finance before the expiry period of the bill.

3. **Foreign Trade Financed by the Importer**
Sometimes, the importer imports the goods of paying case is advance. The following are the main types of short-term credit given to the exporter by the importer.

(i) Payment of placing orders: The importer makes full payment in advance of placing fire orders with the exporter
(ii) Cable transfers: Under this system, a cable message will be send to the importer by the exporter once the goods are ready for dispatch. On the receipt of the cable message, payments are made to the exporter
(iii) Payments through confirming houses: Resident Buyer or a Forwarding Agent may be confirming houses. The payment will be made by the confirming houses to the exporter on the basis of fire order by the importer. However, exporter will be prepared to accept payment on the basis of credit worthiness of confirming houses.

4. **Foreign Trade Financed by Importer with Bank Assistance**
The exporter can get import finance through a bank by any of the following two methods:

(i) Bills of Exchange: Documentary bill of documentary draft is one of the main methods of payment in export trade. Under this system, the exporter has to draw a bill of exchange on the buyer, payable as sight when no trade credit is being extended or payment as some future date to take care of inherent credit terms. The exporter is supposed to submit the bill with documents of title namely, commercial and custom invoices marine insurance policy. The sets of document are to be surrendered to the importer of the payment of the bill in respect to sigh bill the amount is realized and remitted back to the exporter's bank account. But, in time bill, after the bill in accepted by the importer is returned to the exporter's bank to be presented again to the buyer for payment on the date of maturity.

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(ii) Letter of credit Under letter of credit method, the exporter why desired to get an assurance of payment against documents usually stipulated in his contract with the overseas imported by means of banker's letter of credit which enables the exporter to obtain immediate payment of his invoice against shipping documents. The two main kind (i) irrevocable letter of credit and (ii) Revocable letter of credit, at Irrevocable letter of credit in one which after issuance cannot be cancelled without the consent of parties concerned- A Revocable letter of credit can be altered or cancelled as any time without any consent or reference to the beneficiary or seller or exporter

5. **Foreign Trade Financed by Banks**
   Under this category, on the basic of the request of the importer, the bank opens documentary credit and makes payment to the exporter by obtaining the documents. The bank accepts the bills drawn by the exporter and the exporter gets the accepted bills discounted and gets the short-term finance

6. **Foreign Trade Financed by Accepting Houses**
   The main function of an accepting house is to accept the bills drawn by the exporters. Normally, the imported and Accepting house will have a written agreement is which the house accepts the bill drawn by an exporter. Accepting house accepts commission for its work from the importer. After sending the acceptance from Acceptance house, the exporter gets such bills discounted and gets Payments-

7. **Foreign Trade Financed by Discount Houses**
   Discount houses are trading houses engaged in discounting of bills. The Discount houses discount the bill if it is accepted by any accepting house. Further, the Discount house discounts the bill on the basis of credit worthiness and financial soundness of the exporter as well as importer even if the bill is non-accepted by an Accepting house

Medium and Long-Term Finance

Long-term finance refers to the credit facility extended up to a period from five to twenty years. It is provided for long-term development activities such as purchase of capitalized heavy items such as ship-building purchase of electric machines, heavy engineering goods, etc. Long-term finance generally involved higher levels of risk that short- term finance. Hence the interest rate for long term finance is more that other forms of credit. The World Bank International Monetary Fund, international Development Association and Asian Development Bank are some of the international financial institutions granting long term credit. The main purposes of long-term credit for both exporter and the importer are presented below:

(1) To import and export of capital goods.
(2) To provide credit facility on liberal terms to the importer.
(3) To execute the export promotion programme.
(4) To establish new enterprise and
(5) To make capital investment in other countries.

The medium and long term credit can be divided into two. They are:

(1) Supplier's Credit. and
(2) Buyer's Credit

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Suppliers Credit: Under this system the Indian exporter will offer credits to the overseas buyer. The exporter can on the other hand secure reciprocal credits from the commercial banks which in turn can get refinance from the EXIM Bank.

Buyer's credit: It is a means of financing an export transaction involving capital goods and equipment of large value or complete turnkey projects on long term credit. Loan is extended by a bank or other financial institutions in the supplier's country to the overseas buyer why in thus in a position to pay case for the supplier received. The loan is guaranteed by the buyer's bank or often extended to the buyer's bank itself for the specific purpose in view. The main two points to be made in this connection are: (i) supplies get his money if he fulfils his responsibility, and (ii) there is no involvement of transfer of funds from one country to another.

Forfaiting

The term Forfait is derived from the French meaning the surrender of rights. Forfaiting is non-recourse discounting of export bills. Forfaiting is one of the forms of financing to the exporters. The export-import bank of India authorised by RBI to undertake forfeiting for export financing. Alan C Shapiro in his book "Multinational Financial Management" has defined Forfaiting as "the discounting as a fixed rate without recourse of medium term export receivables denominated in fully convertible currencies."

Example. ABC Co Ltd has exported to a buyer in London and ABC Co Ltd will get export payment after 5 months. In this situation, under forfeiting, ABC Co Ltd can get export bill discounted with a forfaiting agency, through EXIM Bank. The forfaiting agency will pay the amount after deducting a few commitment fee, discount fee and documentation fee prescribed for forfeiting.

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EXIM BANK

Export–Import Bank of India is a finance institution in India, established in 1982 under Export-Import Bank of India Act 1981. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, like other export credit agencies in the world, Exim Bank India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalisation efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

Organisation

Exim Bank is managed by a Board of Directors, which has representatives from the Government, Reserve Bank of India, Export Credit Guarantee Corporation of India, a financial institution, public sector banks, and the business community.

The Bank's functions are segmented into several operating groups including:

- Corporate Banking Group which handles a variety of financing programmes for Export Oriented Units (EOUs), Importers, and overseas investment by Indian companies.
- Project Finance / Trade Finance Group handles the entire range of export credit services such as supplier's credit, pre-shipment Agriculture Business Group, to spearhead the initiative to promote and support Agricultural exports. The Group handles projects and export transactions in the agricultural sector for financing.
- Small and Medium Enterprise: EXIM Bank India handles credit proposals from SMEs under various lending programmes of the Bank.
- Export Services Group offers variety of advisory and value-added information services aimed at investment promotion.
- Export Marketing Services Bank offers assistance to Indian companies, to enable them establish their products in overseas markets. The idea behind this service is to promote Indian export. Export Marketing Services covers wide range of export oriented companies and organizations. EMS group also covers Project exports and Export of Services.
- Besides these, the Support Services groups, which include: Research & Planning, Treasury and Accounts, Loan Administration, Internal Audit, Management Information Services, Information Technology, Legal, Human Resources Management and Corporate Communications.

The globalised world economy in the post-WTO era has been increasingly characterized by dismantling of protective barriers to trade and investment. While increase in trade opportunities in global markets would necessitate external competitiveness, opening of economies to global trade would entail reduction in protective barriers in the domestic trade areas, resulting in the need for countries to enhance their domestic competitiveness concomitantly. In such a scenario, the ability to complete in both domestic and world market would depend on a country's relative competitive strength vis-à-vis other nations.

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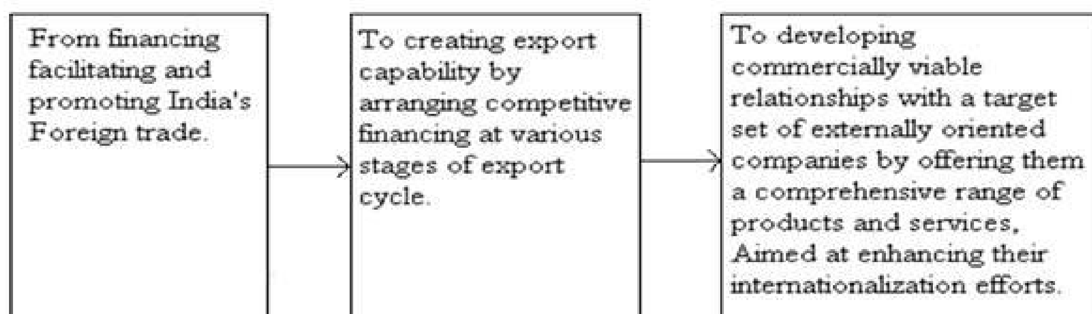
In this context, international competitiveness would encompass higher exports, diversifying the export basket, sustaining higher rates of export growth over time, upgrading the technological skill content of export activity, and expanding the base of domestic firm, which are able to compete globally, as well as in the domestic market.

Fostering international competitiveness and there by sustaining long run growth would entail, inter ail, technological progress, innovation and human skill development. In today's world and more so in the years ahead, competitive strength of countries would increasingly depend on the strategic behavior of firm in adapting to the changing environment and building up core competencies on the lines of comparative advantage.

Meeting the challenges on the policy front also assumes importance in a global economy, as the competitiveness and efficiency of firms is facilitated by the nature of policy environment under which firm operate, and whether macroeconomic policies allow them to achieve the requisite economies of scale and allocate efficiency in production. Growth strategies of developing economies, therefore, should be based upon policies which ensure internal and external stability in the economy, through maintaining sustainable policies and putting in place a proper safeguard system against adverse international shocks and limiting exposure to risks.

Building up competitiveness is a high priority for both developed and developing countries. Given the dynamic changes charaterising key industries and the rising competition among countries, the need for countries to continuously move up the value chain and improve the attractiveness out of their vocational advantages is a challenging task for policy makers in developing countries. Competitiveness, both domestic and international, is important and challenging and should be seen not as an end in itself but as a means to an end – which is economicdevelopment.

An act of parliament setup the export – import bank of India is September 1981. It commenced operations in March 1982. The government of India wholly owns this bank. The bank was set up for the purpose of financing, facilitating and promoting foreign trade in India. EXIM bank is the principal financial institution in the country for coordinating working of institutions engaged in financing of exports and imports. Organization of EXIM bank can well be understood as given in below representation.

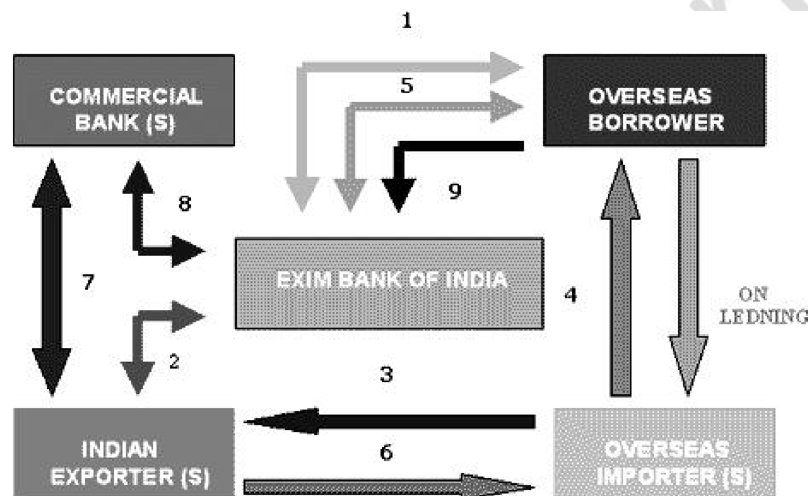


The operations of the EXIM Bank are grouped as follows:

Export Credits

The bank provides exports of Indian machinery, manufactured goods and consultancy services on deferred payment terms. It also makes available lines of credit/buyer's credit to overseas entities, i.e. governments, central banks, commercial banks, development finance institutions, regional development banks etc for financing export of goods and services from India. Export credits include project finance and trade finance.

Procedural Flow Chart



1. **EXIM Bank** signs agreement with **Borrower** and announces when effective.
2. **Exporter** checks procedures and Service fee with **EXIM Bank** and negotiates contract with **Importer**.
3. **Importer** consults **borrower** and signs contract with **exporter**.

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4. **Borrower** approves contract.
5. **EXIM Bank** approves contract and advises **borrower** and also **exporter** and **commercial bank**.
6. **Exporter** ships goods.
7. **Commercial bank** negotiates shipping documents and pays **exporter**.
8. **EXIM Bank** reimburses **Commercial bank** on receipt of claim by debit to **borrower**.
9. **Borrower** repays **EXIM Bank** on due date.

Export Capability Creation

The assistance of finance under this category includes the following:

- Finance for export product development
- Finance for export marketing finance
- Finance for export oriented units which includes Project finance and working capital
- Production equipment finance
- European Community Investment Partners (ECIP)
- Asian Country Investment Partners (ACIP)
- Overseas Investment Finance
- Export Facilitation Programmes
- Software training institutes
- Minor Port Development

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Export Services

In addition to finance, bank provides a range of information and advisory services to Indian companies to supplement their efforts aimed at globalization of Indian business.

Supporting Groups

- Planning and research
- Accounts/MIS?EDP
- Legal
- Coordination
- HRD
- Establishment

Project and Services Exports

Under section 47 of foreign Exchange Management Act, 1999, RBI has issued the following guidelines:

The Types of Exports Covered

a. Export of goods on Deferred Payment Terms
b. Turnkey Projects
c. Construction projects
d. Consultancy & Technical Services

In terms of regulation 9 of the foreign exchange management act 199, the amount representing the full export value goods exported must be realized and repatriated within 6 months from the date of export. Export where there is more than10 percent of the value is realized beyond the prescribed period, i.e. 6 months from the date of shipment are treated as Deferred Payment Exports.

While dispersing the pre-bid clearance of project export proposals, RBI advises exports to ensure, in their own interest, that conditions laid down in memorandum PEM for submission of bids are compiled with.

Project exporters, at the time of submission of bids/offers for execution of projects or export contract overseas, seek in principle commitment from EXIM Bank and other banks for post award facilities to ensure tie up of facilities. EXIM Bank issues guarantees required for execution of project export contract through overseas bank or favouring overseas clients.

Exporter submit application in prescribed form along with copies of contract through its commercial bank for post - award Clearance. Exporters can directly approach EXIM Bank for proposals of value limit up to ` 200 crores.

On receipt of application and contract copies from the commercial bank, EXIM Bank approves the proposal if the same falls within the its delegated powers or convenes Working Group meeting.

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In approved cases, EXIM bank/working group, final approvals for fund based and non fund based facilities are granted by concerned institution and export banks.

Clearance of Export Proposals – Criteria

These include the following:

a. Exporter's financial position, track record
b. Status of overseas client—Government/private
c. Break-up of contract value—Indian/Third country/Local
d. Risk assessment by of buyer's country
e. Estimate of cost and profitability
f. Currency of Payment—Convertible Currency/Local currency
g. Security including Letter of Credit, Bank Guarantee, Government Guarantee, Externalisation undertaking of central bank.
h. Foreign Exchange Outgo, and
i. Facilities required by the exporter.

Clearance of Export Proposals—Appraisal factors

a. Payment terms include Advance Payment, Progress/Down Payment, Deferred Payment, retention Money
b. Security including Letter of Credit, Bank Guarantee, Government Guarantee, Externalisation undertaking of central bank.
c. Availability of ECGC cover, where necessary
d. Important contractual clauses:
    - Pre – shipment Inspection
    - Arbitration
    - Force Majeure
    - Status of exporter is prime contractor/sub contractor/consortium member
    - Penalty/liquidated Damages for delay in contract execution
    - Price escalation

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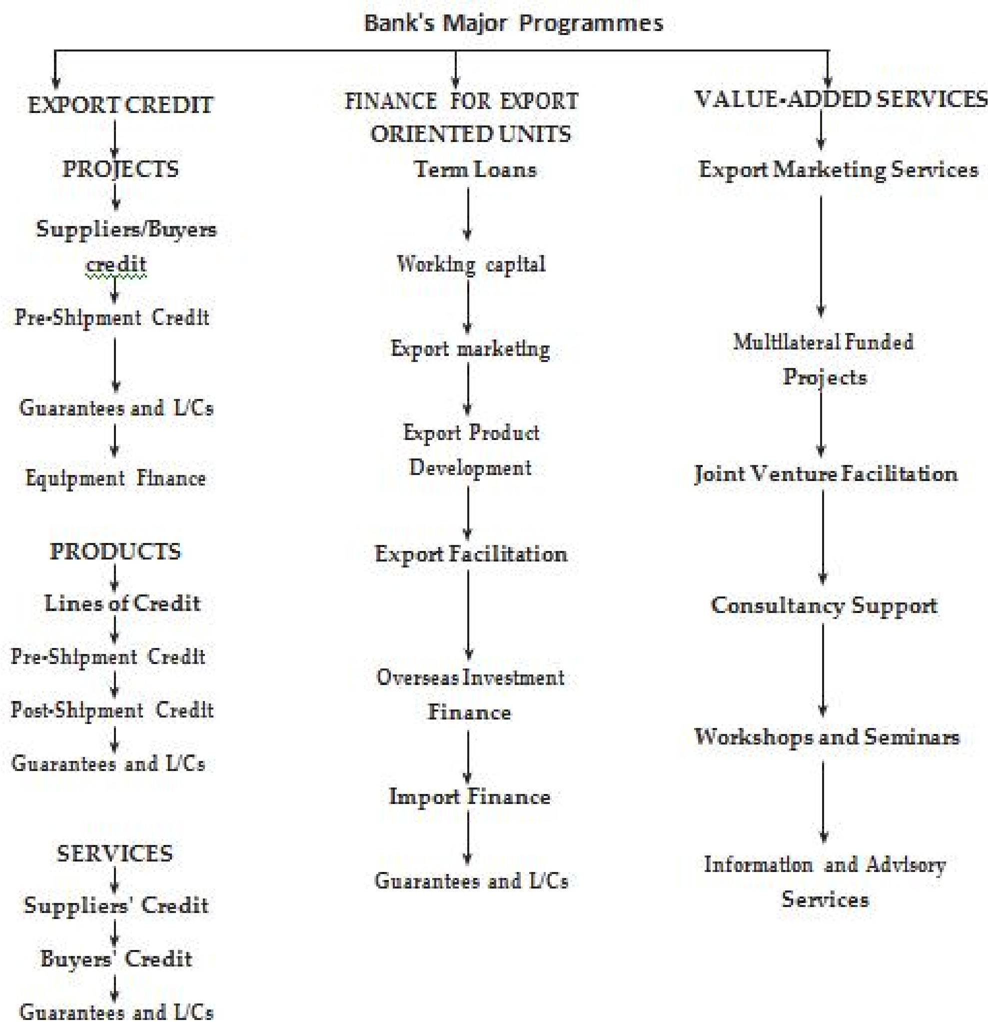

Funded Schemes of Financing

EXIM Bank provides the following sources of assistance:

1. Lines of credit
2. Suppliers credit
3. Overseas buyer's credit
4. Loan under Financing Rupee Expenditure for Project Export contracts (FREPEC) programme.
5. Pre shipment Credit
6. Refinance of Export Loans
7. Forfaiting

Non – Funded Schemes of Financing

1. Bid Bond
2. Advance Payment Guarantee
3. Performance Guarantee
4. Guarantee for release of Retention Money
5. Guarantee for raising Barrowing overseas
6. Other Guarantees
7. Confirmation of letter of credit under the Trade Facilitation Program of the European

Bank for Reconstruction anddevelopment.

Fund Based Facilities

Lines ofCredit

EXIM Bank extends line of credit to overseas government/nominated by them or the overseas financial institutions to enable the buyers in those countries to import capital/ engineering goods, industrial manufactures and related services from India on deferred payment terms.

This facility enables importers in those countries to import from India on deferred credit terms as per the terms and conditions already negotiated between EXIM Bank and the overseas agency. The Indian exporters can obtain payment of eligible value from EXIM bank against negotiation of shipping documents, without recourse to them

Features

The lines of credit are denominated in convertible foreign currencies or Indian rupees and extended to sovereign governments/agencies nominated by them or financial institution. Such government/agencies/institution is the borrowers and EXIM bank the lender.

Terms and condition of different lines of credit vary and details in respect of each line of credit have come into effect and unconditional balances are still available for utilization. Indian exporters also need to ascertain the quantum of services fees payable to EXIM bank on account of pro-rata export credit insurances premium and/or interest rate differential cost which they can then pay up in their prices to their importers.

Mechanism

The mechanism of the working of this type of fund-based facility is described below:

- The buyers arrange to obtain allocation of funds under the credit line from the borrower. The exporter then enters into contracts with the buyers, for the eligible items covered under the line of credit. The contracts would need to conform to the basic terms and conditions of the respective credit lines.
- The delivery period stipulated in the contracts should be such that credit can be drawn from EXIM bank within the terminal disbursement date stipulated under the respective line of credit arrangement also, all contracts should provide for pre-shipment inspection by the buyer or agent nominated by buyer.
- The buyer arranges to comply with procedural formalities as applicable in his country and then submits the contracts to the borrower for approval. The borrower in turn forwards copies of the contracts to EXIM bank for approval.
- EXIM bank advice approval of the contracts to the borrower, with copy to exporter, indicating approval number, eligible contracts value, last date for disbursement and other condition subject to which approval is granted.
- The buyer on advice from the borrower establishes an irrevocable sight letter of credit (L/C). A single L/C is to be opened, covering the full eligible value of the contract

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including, freight and/or insurances as laid down in the contract. The letter of credit is advised through a bank in India designed by EXIM bank.

- Exporter ships the goods covered under the contracts and presents documents for negotiation to the designed bank. The bank forwards negotiated document to the buyer.
- On receipt of clean non-negotiable set of shipment documents along with the relative invoices, inspection certificate, that document negotiated are as per terms of L/C and without reserve from the negotiating bank and after having satisfied itself, that all formalities have been complied with in conformity with the terms of the credit agreement, EXIM bank reimburses the eligible value of shipment in equivalent rupees at spot exchange rate to the negotiating bank for payment to the exporter.
- EXIM bank debits the borrowers account and arranges to collect interest and principal receivable on due dates as per the terms of the credit agreement between EXIM bank and the borrower.
- Any bank charges, commission expenses payable in India as also pro-rata export credit insurance premium and/or interest rate differential cost, as may be applicable shall be to the account of the exporter. The exporter is advised to ascertain from EXIM bank the amount of services fee payable by the exporter, before entering into commercial contracts with the overseas buyer. EXIM bank will not be liable to pay interest for period between dates of negotiation and actual reimbursement from EXIM bank.

Supplier's Credit for Deferred Payment Exports

EXIM bank offers supplier's credit in rupees or in foreign currency at post-shipment stages to finance export of eligible goods and services on deferred payment terms. Supplier credit is available both for supply contracts as well as projects exports; the latter includes construction, turnkey or consultancy contracts undertaken overseas.

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 exports contracts.

General Terms

The terms of the supplier's credit are summarized below:

a. Extent of supplier's credit is 100 percent of post-shipment credit extended by exporter to overseas buyer.
b. Supplier's credit from EXIM bank is available in Indian rupees or in foreign currency.
c. The rate of interest for suppliers credit in rupees is a fixed rate and is available on request. EXIM bank offers suppliers credit in foreign currency on a floating rate basis at a margin over LIBOR, depending upon cost of funds.
d. 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.
e. Period of credit is determined for each proposal having regard to the value of contracts, nature of goods covered, security and competition. Repayment period for

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supplier's credit facility is fixed coinciding with the repayment of post-shipment credit to EXIM bank as per agreed repayment schedule, irrespective of whether or not the overseas buyer has paid the Indian exporter.

Utilization of Credit

EXIM bank enters into suppliers credit agreement with Indian exporter as also with exporters commercial bank in the event of the latter's participation in the suppliers credit. The agreement covers details of draw down repayment and includes an affirmation by the Indian exporter that repayment to EXIM bank would be made on due date, regardless of whether due payment have or have not been received from overseas buyer.

Commercial bank negotiates export document and seeks reimbursement of suppliers credit amount. Commercial bank seeks reimbursement of suppliers credit from EXIM bank along with annexure containing particulars of shipments made (drawal form and annexure format are provided to bank at the time of issue of sanction). On satisfying itself that the disbursement claim is in order. EXIM bank either credits the amount in rupees under rupees suppliers credit into the account of commercial bank, maintained with reserve bank of India (RBI)at Mumbai, or the commercial banks NOSTRO account under foreign currency suppliers credit and advises details of the amount credited to bank/exporter.

The exporter repays principal amount of credit to EXIM bank as per agreed repayment schedule. Interest amounts are payable to EXIM bank half-yearly without any moratorium. RBI has laid down guidelines for project exports and exports of goods from India on deferred payment terms. RBIs guidelines relating to project export contracts are contained in memorandum PEM published by RBI. It is priced publication and available at any time of the regional offices of RBI throughout India.

Overseas Buyers Credit

Under this type of facility credit is offered directly to overseas buyers for a specific project/contract.

FREPEC

This programme Financing Rupee Expenditure For Project Contracts (FREPEC), seeks to provide for expenses incurred by Indian companies. The purposes of this credit is to enable Indian project exporters to meet rupees expenditure incurred/required to be incurred for execution of overseas project export contracts such as for mobilization/ purchase/acquisition of materials and equipment, mobilization of personnel, payments to be made in India to staff, sub-contractors, consults and to meet project related overheads in India rupees.

Indian project exporters who are to execute project contracts overseas secured on cash payment terms or those funded by multilateral agencies will be eligible for this type of facility. The purpose of the new lending programme is to give boost to project export efforts of companies with goods track record and sound financials.

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As to the quantum of assistance extended under this programme, it will be up to 100 percent of 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 ` 50 lakhs. Although, no maximum amount of credit is being proposed. While approving overall credit limit, credit-worthiness of the export=borrower would be taken into account where feasible credit may be extended in participation with sponsoring commercial banks.

Disbursement is made under this programme in rupees through a bank account of the borrower-company against documentary evidence of expenditure incurred, accompanied by a certificate from chartered accountant. Repayment of credit would normally be out of project receipts. Period of repayment would depend upon the project cash flow statement, but will not exceed 4 years from the effective date of project export contracts. The liability of the borrower to repay the credit and pay interest and other monies will be absolute, and will not be liability of the borrowers to repay the credit and pay interest and other monies will be absolute, and will not be dependent upon actual realization of project bills.

As regards security, hypothecation of project receivable and project moveable are considered where available, personal guarantees of directors of the company are also considered. The facility is available through collateral security and where cost is not prohibitive or where the borrower- company is prepared to bear the cost, packing credit guarantee of ECGC may be obtained.

Pre-Shipment Rupee Credit

Refinances of Export Credit Pre-shipment rupee credit is extended to finance temporary funding requirement of export contracts. This facility enables provision of rupee mobilization expenses for construction/turnkey projects. Exporters could also avail of pre-shipment credit in foreign currencies to finance cost of imported inputs for manufacture of exports products to be supplied under the projects. Commercial banks also extended this facility for definite periods. Authorized dealers in foreign exchange can be obtain from EXIM bank, 100 percent refinance of deferred payment loan extended for export of eligible Indian goods.

Forfaiting – An Export Finance Option

Forfaiting is a mechanism of financing exports by discounting export receivables evidenced by bill of exchanges or promissory notes without recourses to the seller carrying to long term maturities on a fixed rebate basis up to 100 percent of the contract value.

The word 'forfait'is derived from French word 'a forfait' which means the surrender of rights. Simply put, forfaiting is the non-recourse to him, his rights to claims for payment on goods delivered to an importer, in return for immediate cash payment from a forfaiter. 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.

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Features of Forfaiting

Eligibility: All exports or capital goods and other goods made on long term credit are eligible to be financed through forfaiting.

Document: Receivables under a deferred payment contract for export of goods, evidenced by bills of exchanges or promissory notes, can be forfeited. Bill of exchange or promissory notes, backed by co-acceptance from a bank are, endorsed by the exporter, without recourse, in favour of the forfaiting agency in exchange for discounted cash proceeds. The bankers' co-acceptance is known as avalization. The co-accepting bank must be acceptable to the forfaiting agency. For the purpose of forfaiting it is essential that the bill of exchange or promissory note is in the prescribed format. The role of EXIM bank will be that of a facilitator between the Indian exporter and the overseas forfaiting agency.

Facilitation: The EXIM bank facilitates a forfaiting transaction in the following manner:
On a request from an exporter, for an export transaction, which is eligible to be forfeited EXIM bank will obtain indicative and firm forfaiting quotes – discount rate, commitment and other fees from overseas agencies. EXIM bank will receive availed bill of exchange or promissory notes, as the case may be, and send them to the forfaiter for discounting and will arrange for the discounting proceeds not be remitted to the Indian exporters. The bank will issue appropriate certificate to enable Indian exporters to remit commitment fees and othercharges.

Approved Method: Forfaiting is an approved method of export financing in India. EXIM bank has been authorized by the reserve bank of India to facilities export financing through forfaiting.

Cost of forfaiting: A forfaiting transaction has typically three cost element such as commitment fee, discount fee, and documentation fee.

A *commitment fee* is payable by the exporter to the forfaits for the latter's commitment to execute a specific forfaiting transaction at a firm discount rate within a specific time (normally not more than one year). The commitment fee generally ranges between 0.5 percent and 1.5 percent per annum of the unutilized amount to be forfaited and is charged for the period between the date the commitment is given by the forfaiter and the date on which discounting takes places or until the validity of the forfait contract, whichever is earlier. The commitment fee is payable regardless of whether or not the export contract is ultimately executed.

Discount fee is the interest cost payable by the exporter for the entire period of credit involved and is deducted by the forfaited from the amount paid to the exporter. The discount rate is established at the time of executing a forfait contract between the exporter and the forfaiting agency.

Generally no *documentation fee* is incurred in straight forwards forfaits transaction. However, if extensive documentation and legal work is necessary, a documentation fee may be

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charged. In addition to the above mentioned costs, there are also other types of costs that are incurred such as service fee for facilitating the forfaiting transaction which will be payable in Indian rupees. There may be additional costs levied by a foraiter such as handling charges penalty etc. however, these costs are transaction specific and will be specified where applicable.

The above mentioned costs of forfaiting need to be transferred to the overseas buyer. Discount fee, documentation fee and any other costs levied by a forfaiter must be transferred to the overseas buyer. Commitment fee should also be passed on to the overseas buyers to the extent possible. The exporter should finalize the export contract in a manner which ensures that the amount received in foreign exchange by the exporter after payment of forfaiting discount and other fee is equivalent to the price which he would obtain if goods were sold on cash payment terms. Duty drawback will be computed only on FOB cost of goods, invoice value less freight, insurance, if any and forfait discount and other related fees.

Benefits of forfaiting: The following benefits accrue to an exporter from forfaiting:

- Conversion of a deferred payment export into a cash transaction, improving liquidity and cash flow.
- Freeing the exporter from cross border political or commercial risks associated with exports receivables
- Financing up to 100 percent of the export value is possible as compared to 80-85 percent financing available from conventional export credit programmes.
- As forfaiting offer ”without recourse” finance to an exporter, it does not impact the exporters borrowing limits. The forfaiting represent an additional source of funding, contribution to improved liquidity and cashflow.
- Providing fixed rates finances; hedges against interest and exchanges 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 forfaiter is not necessary to arrange a forfaiting transaction.
- Exporter saves on insurance costs as forfaiting obviates the need for export credit insurance.
- Simplicity of documentation enables rapid conclusion of the forfaiting arrangement.

Other features: Other features of forfaiting are as follows:

a. **Duration**: Duration of receivable eligible for forfaiting normally ranges between 1 years and 5 years.
b. **Currency:** The export contracts can be executed in any of the major convertible currencies e.g. U.S dollar, pound sterling, deutsche mark, Japanese yen.
c. **Minimum Value:** The minimum value of an export contract eligible for forfaiting and acceptable to a forfaiting agency will generally be the equivalent of U.S.$100,000.
d. **Eligible Exports:** Eligibility of an export transaction for forfaiting can be determined when the forfaiting agency is approached for a forfait quote. The availability of a forfaiting quote for a particular country will depend on the forfaiting agency's perception of risk quality of export receivable from that country. The forfaiting agency will indicates the maximum amount and the period of discount while giving

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the quote.

e. **Details:** An exporter who is desirous of getting his receivables forfaited should furnish the following details.
   - Name and address of foreignbuyer
   - Country to which exports are to be made
   - Name of the guarantor bank, if known to the exporter
   - Nature of goods
   - Order quantity
   - Amount of order- base price, interest rate
   - Delivery of order – base price, interest rate
   - Name of the authorized dealer who will handle the export transaction for the exporter in India

The above information will enable EXIM bank to establish, prima-facie, eligibility receivable for forfaiting.

Operating Procedure

The operating mechanism for a forfait transaction is outlined below:

- Negotiation: Indian exporter initiates negotiation with prospective overseas buyer withregard to order quantity, price, currency of payment, delivery period and credit terms.
- Approaching EXIM banks: exporter approaches EXIM banks to obtain an indicative forfaiting quote from the forfaiting agency. For this purpose, the exporter is required to provided the abovementioned details.
- Indicative quotas: EXIM bank obtains indicative quotas of discount, commitment fees and documentation fees if any, and communicates these to the exporter.
- Contract finalization: exporter finalizes the terms of the contract with the buyer. The final export offer must be structured in a manner which ensures that the amount received in foreign exchanges by the exporter after payment of forfaiting discount and other fees is equivalent to the price which he would obtain if goods were sold on cash payment terms. If the terms are acceptable to the overseas buyer, the Indian exporter informs EXIM banks accordingly and requests the banks to obtain a firms quote from the forfaitingagency.
- Firm quotes: EXIM banks obtains a firm quote from the following agency and conveys this information to the exporter and his authorized dealer, with a request to the exporter to confirm acceptance of the forfaiting terms within a specified time limit.
- Confirmation: Indian exporter confirms acceptances of forfaiting terms to EXIM banks. The exporter will enter into a commercial contract with the overseas buyer and also execute a forfaiting contract with the forfaiting agency through EXIM banks.
- Certificate: on execution of the forfating contract EXIM bank issues a certificate to the exporter with a copy to the authorized dealer, regarding the commitment fee to the be paid by the exporter to the forfaiting agency. This certificate will enable the export to remit commotment fees to the forfeiting agency, in accordance with the schedule indicated in the forfating contract. In terms of the reserve bank of India guidelines

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governing forfeiting contracts, commitment fees will be regard as being analogous to bank charges, and will not be required to be mentioned in GR form or shipping bill prepared by the exporter, subject to the commitment fee not exceeding
1.5 percent of the contract value.

- A certificate to the detailing the discount payable to the forfeiting agency to enable the Indian customs authorities to verify deduction towards forfeiting discounts declared by the exporter on GR form and hipping bill.
- Shipment: the Indian exporter ships the goods as per the schedule agreed with the overseas buyer. The forfeiting transaction will be reflected in the following three documents associated with an export transaction as stated below.
- Invoice forfaiting discount, commitment fees, etc, need be shown separately; instead, these could be building into the FOB price, stated on the invoices.
- Shipping bill and GR form details of the forfeiting costs will be included along with the other details such as FOB price, commission, and insurance, normally included in the “analysis of export value” on the shipping bill. The claim for duty drawbacks if any, will be certified only with references to the FOB value of the exports stated on the shipping bill.
- Avalised bills and notes the export contract will provide for the overseas buyer to furnish avalised promossiory notes. If the contract note provides for the bills of exchange, the exporter will withdraw a series of bills of exchange and send them to along with shipping documents to his banker for presentation to importer, for acceptance through the latter's banker will hand over the shipping documents to importer against acceptance of bills of exchange by the importer and the signature of the aval. Avalised and accepted will be returned to exporter through his banker. Exporter will endorse avalised bills of exchange with the words “without recourse” and forward them through his bank to EXIM bank, which in turn will send them to the forfaiting agency.
- **Payment** The forfaiting agency effects the payment of the discounted value, in accordance with EXIM bank's instruction after verifying the aval's signature, and other particular. Normally, EXIM bank will direct the forfaiter to credit the payment to the NOSTRO account of the exporters' bank in the country where the forfaiter is absed. The bank receiving the discounted proceeds will arrange to remit the funds to India. The exporter will be issued a certificate for foreign inward remittance. The GR form will also be released. The export contract, which provides for more than one shipment can also be forfaited under a single forfaiting contract. However, where the export is affected in more than one shipment, avalised promisssory notes/bills of exchange in respect of each shipment could be forfaited, subject to the minimum value requiments laid down by the forfaiter. Presentation on maturity of the bills of exchange/ promissory notes, the forfaiting agency presents the instruments to the aval for payment.

Non-Fund Based Facilities

The non-fund based facilities extended by the EXIM bank takes the form of guarantees provided directly or in participation with other banks, for project export contract following are the various non-fund based facilities offered by the EXIM bank. A. bid bond bid bond is generally issued for a period of six months.

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- Advance payment guarantee exporters to secure a mobilization advance of 10-20 percent of the contract value, which is normally released against bank guarantee and is generally recovered on a pro-rata basis from the progress payments during project execution.
- Performance guarantee performance for 5- 10percent of contract is issued, valid up to completion of maintenance period normally one year after completion of contract period and or grant of final acceptance certificate (FAC) by the overseas employer. Format of guarantee is expected to be furnished by exporter, at least four weeks before actual issue, to facilitate discussions for formal approval.
- Guarantee for release of retention money this enables the exporter to obtain the release of retention money (normally 10 percent of contract value) before obtaining final acceptance certificate (FAC) from client.
- Guarantee for raising borrowings overseas bridges finance may be needed at the earlier phases of the contracts to supplement the mobilization advances. Bridges finance up to 25 percent of the contract value may be raised in foreign currency from an overseas bank against this guarantee issued by a bank in India. Request for overseas borrowings must be supported by currency wise cash flows, also indicating the outstanding letters of credit and L/C drawl schedule.
- Other guarantees the EXIM bank of India in lieu of customs duty or security deposit for expatriate labor grants other guarantees. Guarantee commission is charged at rates stipulated by the Foreign Exchange Dealers Association of India (FEDAI) or as stipulated by guarantee issuing bank. Banks generally waive margin requirement for issue of guarantee for export performance guarantee. However, appropriate securities are availed of.

The proposal is to be submitted in the prescribed application form along with implementation schedule, currency-wise cash flows and write-up with regard to site and infra-structural condition, and sub-contracting arrangements envisaged. In case of non- government buyer, status report on the client/prime contractor would first need to be obtained. The completed application is to be submitted to be submitted to the sponsoring bank, for consideration, within fifteen days of entering into contract. It would also be necessary to consult ECGC in advance in cases where corporation's insurance cover and or counter guarantees are required.

Export Capability Creation programmes

The EXIM bank operates the following programmes for creating export capabilities:

1. Lending Programs for Export Oriented Units
2. Production Equipment Finance Program
3. Overseas Investment Finance Programs
4. Equity Investment in Indian Venture Abroad
5. Asian Countries Investment Partners Programs
6. Export Marketing Finance Programs
7. Export Product Development Programs
8. Export Vendor Development Programs
9. Programs For Export Facilitation

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10. Foreign Currency Pre-Shipment Credit
11. Working Capital Term Loan Programs for Eou's
12 Bulk Import Finance
13. Finance for Research And Development for Eou's
14. Long Term Working Capital
15. Import Finance

Lending Programs for Export Oriented Units

The objective of these lending programs is to create and enhance export capabilities of Indian companies. Eligible companies include units set up/proposed to be set up in export processing zones, units under the 100 percents Export Oriented Units Scheme, units importing capital goods under promotion capital goods scheme, units undertaking expansion/modernization/ upgradation/diversification programmes of existing export oriented units with export orientation of minimum 10 percent or sales of ` 5 crores per annum whichever is lower.

The lending program takes the form of term loans in Indian rupees/foreign currency. In addition deferred payment guarantee for import of capital goods also form a part of it. As to the interest rates, rupees term loan linked to banks minimum lending rates whereas foreign currency term loans is at floating or fixed interest rates based on banks cost of funds. Interest is payable semi-annually on reducing balances. Interest tax is as applicable. Services fee of one per cent of loan payable upfront. Repayment period is up to ten years, based on projected cash flows inclusive of suitable moratorium.

As regards security, appropriate charge on fixed assets of the company's/ project plus any other security acceptable to EXIM banks is applicable. Finance can be accessed by way of the bank having preliminary discussions with the promoters to determine scope for EXIM banks finance. To facilitate discussions, project profile identifying financial requirement needs to be sent to the bank. EXIM bank offers comprehensive package to externally oriented companies by way of finance, information, and value added services.

Production Equipment Finance Program (PEFP)

Under the production equipment finance program, EXIM banks seeks to finance non-project related capital expenditure of export-oriented units. PEFP is structured as an arrangement under which various equipment, imported and indigenous, can be financed thus obviating the need to arrange finance for every such procurement. It is not necessary to identify specific equipment sought to be financed at the time of application; this could be done at the time of disbursement. PEFP is a fast-disbursing window available to export oriented units.

Companies with good track record and sound financiers are eligible for assistance. Existing export oriented units with minimum export orientation (present or targeted) of 10 percent of total sales or ` 5 crores in values whichever is lower are eligible. The facility is granted by way of term loan in Indian rupees/foreign currency. As regards interest rates, rupees term loan linked to banks minimum lending rates and foreign currency term loan at floating rates or fixed interest rates based on banks cost of funds. Interest is payable semi-annually on reducing balances. Interest tax is payable as applicable. Services fee of one

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percent of loan amount payable upfront. The facility is available up to one year from the date of sanction. Ten percent margin is maintained.

As regards security, hypothecation of equipment, plant and machinery financed by the bank is the popular mode of security. Additional security by way of personal guarantee, any other assets of Borrowers Company, corporate guarantee of group company/parent Company and appropriate charge on any other security on a case to case basis is also in vogue. Finance can be accessed with preliminary discussions with the promoters to determine scope for EXIM banks term finance under PEFP.

Overseas Investment Finance

This includes lending programs for overseas joint ventures/wholly owned subsidiaries by Indian companies. The objective to finance by way of equity loan to Indian companies for settings up of overseas joint ventures wholly owned subsidiaries. Any Indian promoter making equity investment in an existing company or a new project overseas with the requisite approval for such investment from the Reserve Bank Of India(RBI) / government of India as also from the government and other concerned authorities in the host country is eligible for this financing.

Government guidelines following are the guidelines issued by the government of India is regard to this type of financing:

- **Proposals** for setting up JV/WOS abroad require approval of the RBI in accordance with the guidelines for Indian direct investment in JVs and Wos abroad notified by the government of India. Ministry of commerce.
- Proposals for direct investment in a JV/WOS abroad form a company will be eligible for automatic approvals by RBI provided the total value of the investment by the Indian company does not exceed U.S.$15 million in respect of Indian investment in SAARC countries and total value of investment does not exceed U.S.$ 30 million in Myanmar; in respect of Indian rupees investment in Nepal and Bhutan, total value of investment does not exceeds ` 120 crores. The amount of investment is up to 25 percent of annual average export earning of the company in the preceding three years. The amount of investment is repatriated in full by way of dividends, royalty, technical service fee, etc within a period of five years
- Proposals involving investments beyond U.S.$ 4 million but not exceeding U.S.$15 millions or those not qualifying on the basis of the applicable criteria outlined above will be processed in the RBI through a special committee appointed by RBI. A technical appraisal could preferably accompany such proposal by any one of the designated agencies (including EXIM banks). Large investments proposals for overseas investment in exceeds of U.S.$15 millions will be considered if the required resources beyond U.S.$ 15 million are raised through the GDR route. Up to 50 percent of the GDR resources require may be invested as equity in overseas JV/WOS subject to specific approval of the government. Application for investment beyond U.S.$ 15 million would be received in the RBI and transmitted to the ministry of finance for examination with the recommendation of the special committee. For investment out of EEFC, Authorized dealers would grant permission balances up to a maximum of

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U.S.$ 15 million.

As to the mode of overseas investment, Indian companies are allowed to invest equity in overseas joint ventures/wholly, owned subsidiaries by way of capitalization of export proceeds of plant and machinery, technical knowhow, fee, royalty, and forex remittance of equity contribution. The assistance is available in the form of rupee term loan to Indian companies for financing their equity investment overseas, rupees term loan for lending further to their overseas joint venture/wholly subsidiaries, guarantee for raising finance overseas for equity investment and for working capital requirement for overseas joint venture/wholly subsidiaries. As regards interest rate rupee term loan is linked to bank minimum lending rate and foreign currency term loan is floating or fixed rates based on banks cost of funds. Interest is payable on reducing balances at half yearly rates. Additionally interest tax as applicable will be payable.

As regards margin, it is 80 percent of the Indian company's equity contribution in overseas JV/WOS. EXIM banks finance will be secured by an appropriate charge on the borrowers assets in India and/ or any other security acceptable to EXIM bank, pledge of borrowers shares of Indian promoter companies. In addition, an overseas investment insurance policy can also be obtained by the company from ECGC/MIGA and assigned in favor of EXIM bank. In case of assistance by way of guarantee, counter guarantee from India promoter company will serve as security.

Refinance to commercial banks EXIM banks provide 100 percent refinance to commercial banks in respect of rupees term loans extended by them to Indian promoter company for equity contribution in overseas JV/WOS. As per prevailing RBI guidelines, commercial banks can consider loan for equity investment only under EXIM banks refinance scheme. Finance can be accessed on preliminary discussions with the promoters to determine scope for EXIM banks finance. To facilitate discussions details on project profile identifying financial requirement should be sent.

Equity Investment in Indian Ventures Abroad

The objective of this program is to catalyze overseas investment by the Indian companies to enhance visibility of Indian overseas ventures. Quantum of EXIM banks equity participation will be up to 25 percent of equity capital of the JVs involving Indian companies. This is subject to a ceiling U.S.$ 5 million per proposal. As weightage will be giving to the following factors:

- Background and track record of Indian and foreign promoters
- Synergy of overseas operations with business in index
- Financial viability and technical feasibility
- Return on EXIM banks investment
- Benefits to India in terms of trade enhancement, technology transfer, foreign exchange earnings, etc.
- Spin-off benefits such as brand marketing and penetration of new markets
- 'EXIT ROUTE' for EXIM banks equity investment (which could take place within 5 years from the date of investment. EXIM banks equity may be offloaded to Indian

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promoter, other interested Indian companies, stock exchange in host country etc.)
- Buyback arrangement between EXIM banks and Indian company
- EXIM bank welcomes discussions with Indian Promoter Company seeking EXIM banks equity participation in their overseas joint venture.

Asian Countries Investment Partners Programme (ACIP)

The objective of this lending program is to promote joint venture in India between India companies from Asian countries through four facilities that address stages of the project cycle. ACIP seeks to catalyze investment flows into India by creation of joint venture in India between Indian companies and companies from East Asian countries. ACIP is proposed to be a funding instrument providing finance at various stages of a joint venture project cycle viz. sector study, project identification, feasibility study, prototype development, set up, and technical and managerial assistance. Finance is available for identification of potential joint venture project and partners, and operations prior to launching a joint venture like pilot plant-feasibility study. Project expenditure covers human resources development, training and management assistance. The beneficiaries of this program are chambers of commerce, industrial/investment promotion agencies and other eligible bodies. Indian companies seeking joint venture companies set up under ACIP and joint venture companies set up under ACIP. The instruments of assistance include grant, soft loan and term loan. Assistance could be accessed through preliminary discussions with the promoters to determine scope for EXIM banks finance.

Export Marketing Finance Programme

The objective of this program is to create and enhance export capabilities and international competitiveness of Indian companies. Under the lending programme for export marketing finance, the bank addresses the term finance requirement for a structural and strategic export marketing and development effort of Indian companies. Eligible companies include companies who have a strategic international marketing plan. Further, companies should have established presence in the domestic market and satisfactory financials. The activities eligible for assistance are activities associated with export marketing and export capability creation. Typically activities eligible for finance under this programme are desk/ field research, minor product adaptation, overseas travel, training quality certification, product launch, investment in machinery and equipment, testing/quality control equipment, and factory premises.

Assistances takes the form of term loan in Indian rupees/ U.S Dollar. As regards, interest rates, rupees term loans are linked to EXIM banks minimum lending rate and foreign currency term loan are linked floating or fixed interest rate. Additionally interest tax applicable will be payable. Services fee of one percent of loan amount sanctioned, is payable upfront and is non-refundable. Repayment period up to five years inclusive of moratorium is allowed. The margin is 20 percent. The security includes hypothecation of moveable fixed assets of the company, mortgage of immovable fixed assets of the company or any other security acceptable to EXIM banks. Banks welcomes preliminary discussions with the promoters to determine scope for EXIM banks financing arrangement.

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Export Product Development Programs

The objective of this program is to support systematic export product development plans with focus on industrialized markets. Eligible companies include established export enterprises with product development programme dedicate to export. The company must also have an established track record and satisfactory financials. The activates eligible for assistance include product design and development activities, research and development activates including cost of manufacturing of prototypes and development, pilot plants, product testing, development of tooling's, jigs and fixtures, process development cost, and product launch. Assistance is granted in the form of rupees term loans on soft term basis. Interest rates will be decided on case- to case by way of first charge on the fixed assets of the borrower and any other security as may be considered appropriate on the merits of the case.

Banks welcomes preliminary discussions with the promoters to determine scope for EXIM banks finance; to facilities discussions, details about the project identifying financial requirement should be sent to the EXIM bank.

Programme for Financing Export Vendor Development (EVD)

The objective of the program is to finance export strategic vendor development plans for export companies with a view to enhancing exports through creation and strengthening of backwards with vendors. Eligible companies are export companies and trading houses, manufacturer-exporters with satisfactory track record and financial. In addition, companies with strategic plans for vendor development for exports are eligible to seek finance under these programmes. Companies purchasing finished, semi-finished or intermediate products from vendors with the exporters adding value to the product in the form of further processing or marketing them are also eligible for assistance.

The eligible activities are those undertaken by exporters to develop and upgrade vendors that will lead to export additionally are eligible for finance under EVD. Example of such activities includes acquisition of production machinery, purchase of tooling, moulds, jigs, dies and ancillary equipment, core working capital assistance extended by exporter to vendors 'soft ' expenditure on vendor development such as vendor training, technical assistance to vendor, etc. assistance is available in the form of rupees term loans including soft loan component. As regards interest rates, they are linked to banks minimum lending rate. As regards soft loans the rate applicable is 7.5 percent p.a (subject to change) subject to maximum of ` 50lakhs. Repayment period is up to 7 years with a margin of 20 percent. Security for the loan is first charged on the borrower company's assets. Bank welcomes preliminary discussions with the promoters to determine scope for EXIM banks term finance.

Programme for Export Facilitation

EXIM bank offers term finance and non-funded facilities to Indian corporate to create infrastructure facilities to promote India's international trade and thereby enhance their export capability. The various infrastructural facilities covered under the programme are software and post development or any other infrastructural facility for promoting India international trade are asfollows:

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a. Financing Port Development

The objective of this program is to finance development of minor ports with related infrastructural activities, which would facilitate India's international trade. Eligible companies include Indian companies undertaking minor port projects and suppliers of equipments to minor port development projects. Eligible activities are construction of port/jetties, acquisition of fixed assets for individual activities such as stevedoring, cargo handling, and storage and related activities like dry docks, ship reeking.

Interest rates are linked to banks minimum lending rate. As regards term loans in foreign currency interest rates are at floating or fixed rate. In the case of non-funded facilities, applicable rate of commission is charged. Repayment period is 7 to 10 years inclusive of moratorium. Security for this type of financing includes first charge on fixed assets pertaining to the project/company being financed. Additional security by way of assets or corporate guarantee of promoter company/personal guarantees may also be stipulated. Bank welcomes preliminary discussions with the promoters to determine scope for EXIM bank's finance.

b. Lending Programme for Software Training Institutes

The objectives of this program are to address the perceived constraint in availability of trained high-end software professionals to support the fast growing exports. The programme aims at financing the establishment/expansion of software. Eligible borrowers are established software exporting company with good export track record and sound financials, and reputed software training institutes engaged in high end software training. Activities eligible for assistance are acquisition of fixed assets Including land, building, hardware, software and related equipment, extending loans towards tuition fees and other charges, and any other activity connected with training that may be agreed by EXIM banks.

The assistance is granted in the form of term loans in Indian rupees/foreign currency. As regards interest rates, rupees term loan is linked to bank's minimum lending rate and foreign currency term loans is at floating or fixed interest rates based on banks cost of funds.

Interest is payable semi-annually on reducing balances. Interest tax is as applicable. Service fee of 1 percent of loan amount is payable upfront. The repayment period is up 5 years, based on projected cash flows inclusive of suitable moratorium. The security is appropriately charged on fixed assets of the company/project plus any other security acceptable to EXIM bank. Bank welcomes preliminary discussions with the promoters to determine scope for EXIM bank's finance.

Foreign Currency Pre-Shipment Credit (FCPC)

Under this programme, short-term foreign currency finance is available to eligible exporters for financing inputs for export production such as raw materials, components and consumable. The finance is repayable in foreign currency from proceeds of the relative exports.

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FCPC programme represents another funding source to the exporter for expanding export volumes, particularly of manufactured and value added goods. It eliminates two ways exchanges conversion costs and exchange risks, thus enhancing export competitiveness. FCPC can be a cost effective funding source as compared to rupee export credit as well as overseas suppliers' credit depending on market conditions for loans under FCPC. As far as commercial banks are concerned, loans availed from EXIM banks are exempt from cash reserve ratio, statutory liquidity ratio and incremental credit deposit ratio requirements.

Eligible borrowers are exporting companies and commercial banks for lending further to exporting customers. Interest rates are not to be exceeds 2 percent over London Inter Bank Offer Rate(LIBOR). In case FCPC is extended through commercial banks, which does not have foreign branches, the interest rate should not exceeds 2.5 percent over LIBIOR or any other rate as specified by reserve bank of India from time to time.

Interest on refinance to commercial banks will be mutually agreed. The assistances is granted in the form of short term foreign currency loans and the repayment period is a maximum of 180 days from the date of disbursement. As regards security, EXIM banks have pari passu charges on current assets in case of direct loans. Banks welcomes preliminary discussions with the promoters to determine scope for EXIM banks finance.

Working Capital Term Loan Programme for Export Oriented Units (WCTL)

WCTL programme seeks to create, enhance export capabilities of Indian companies. Under the programme, the bank addresses the working capital requirement of export oriented units. Eligible companies are units set up proposed to be set up in export processing zones, units under the 100 percent export oriented units scheme, units importing capital goods under export promotions capital goods scheme and units undertaking expansion/ modernization/upgradation/ diversification programmes of existing export oriented units with export orientation of 10 percent of sales or export sales ` 5 crores per annum whichever is lower.

Working capital terms loans in Indian rupees or in foreign currency up to 80 percent of the demand loan component of working capital with a minimum 20 percent margin are granted. Interest rates for rupee term loan are linked to banks minimum lending rate and foreign currency term loans attract floating or fixed rates based on banks cost of funds. Interest is payable semi annually on reducing balances. Interest tax as applicable is payable. As regards security, appropriate charges on the fixed and or current assets, personal guarantees of promoter/director, corporate guarantee of group concern if considered necessary. Bank welcomes preliminary discussions with the promoters to determine scope for EXIM banks finance. To facilitate discussions, details of the project identifying financial requirement are to be sent to EXIM banks.

Bulk Import Finance Programme (BIF)

The objective of this program is to provide short term working capital finance to manufacturing companies to import consumable inputs. Under the programme, BIF is offered for import of eligible items with a minimum order size of ` 1 crore. This is granted as short term loans in Indian rupees and foreign currency. As regards interest rates, 1 percent is

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charged on cash credit facility in rupees loans charged by the commercial banker subject to a minimum interest rate fixed by EXIM banks. The interest rate on foreign currency loans depends on costs of funds to EXIM bank with a maximum of 0.75 percent over LIBOR. The loan are to be repaid within 1 year, the security being pari passu charge on current assets. Bank conducts preliminary discussions with the promoters to determine scope for EXIM banks finance. To facilitate discussions, details about the project profile identifying financial requirements should be sent to the bank.

Programme For Financing Research and Development

The objective of the purpose is to provide integrated financing for research and development activities by export oriented companies. EXIMs banks finance is available to financially sound companies with a minimum export oriented of 20 percent of their net sales for the following eligible activities and eligible expenditure.

Eligible R & D activities for the purpose of assistance, the following are the eligible activities:

- Development and commercialization of a new product/process/application
- Significant improvements in existing product/process/application/design
- Development of technology or design to satisfy domestic or international environment, technical requirements/standards, specifications
- Setting up, expansion of pilot plants
- Research studies necessary for obtaining regulatory approvals, product registrations, cost of Filing and maintaining international patents and R & D centers

Eligible R&D expenditure the eligible expenditure for the purpose of assistance is as follows:

- Acquisition of technology at the ;proof of concept' or design stage which will be used to develop new product/process
- Land and building, civil works for housing eligible R&D activities
- Dies, tools, laboratory and other R&D equipment, mould, computer hardware, software,
- Miscellaneous
- Salaries of R&D personnel, support staff during the R&D project phase including training costs
- Costs of regulatory approvals, filing and maintenance of patent registration
- Expenditure on external consultants for outsourcing a component of R&D project
- Product documentation and allied costs during the R&D project phase
- Costs of materials, surveys, technology demonstration studies, fields trails

Basic research with no identified application, academic research and normal process control, quality control, inspection, repairs and maintenance, contract research will not be eligible under the programme, term loan in Indian rupees subject to a maximum of ` 15 crores per company is granted. As regards interest rate, concessional interest rate at 50 percent of the normal interest that the borrower company would be eligible for subject to a minimum of 8 percent p.a payable with quarterly rests. Defaults in loan servicing will attract liquidated damages/penal charges @ 2 percent over the normal interest rate. Service fee of one percent of loan percent of loan amount is payable upfront. Repayment is generally not to

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exceed 7 years, with appropriate moratorium. As regards security one or more of the following is applicable:

- Appropriate charge on the assets of borrower company
- Assignment of intellectual property rights(IPR) and mandate assigning all IPR related Receivable
- Any other acceptable security

Bank welcomes preliminary discussions with the company officials to determine scope for EXIM banks finance, exported benefits from proposed R&D expenditure, fit with company's corporate business plans. In particular, export plans mutual business possibility with EXIM in other areas and financial information on the company.

Long-Term Working Capital Programme for Export Oriented Units
The objective of the program is to provide finance for long term working capital.

The EXIM banks finance is available to financially sound companies with a minimum export orientation of 10 percent of their net sales or export sales of ` 5 crores, whichever is lower. Loans are made available in the form of term loan in Indian rupees, and term loans in foreign currency. As regards interest rate, the rupees term loan linked to banks minimum lending rate and the foreign currency term loan is linked to floating or fixed interest rates based on banks cost of funds. Interest is payable on reducing balances at half-yearly rates. Additionally interest tax as applicable will be payable.

Service fee will be to the extent of 1 percent of loans amount payable upfront. Loans are repayable in 1-5 years, determined on the basis of projected cash flows with suitable moratorium. Security will be one or more of the following:

- An appropriate charge on part/whole of the fixed assets of the company, present and future
- Personal guarantees of promoter director/corporate guarantee of group company
- Pledge of marketable securities with appropriate margin based on average of high and low of market quotations during the preceding 6 months (this will not be accepted as exclusive security)
- Any other acceptable security

Import Finance

Under this program, finance is provided for import of capital goods/plant and machinery, technology/know-how. EXIM banks finance is available to Indian manufacturing companies. Finance is available by way of term loans in Indian rupees/foreign currency. Interest rate is based on prevailing market rates. Rupees term loan is linked to banks minimum lending rate and the foreign currency term loan at floating or fixed interest rates based on banks cost of funds. Interest is payable on reducing balances at half yearly rates. Interest tax is payable as applicable. Services fee of one percent of loan amount is payable upfront.

Repayment is over a period up to 7 years, determined on the basis of projected cash flow with suitable moratorium. Security is in the form of appropriate charge on the asset acquired out of the loan. In addition, the following additionally security is also required:

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- A first pari passu charge on part/whole of the fixed assets of the company, present and future.
- Personal guarantees of promoter director/corporate guarantee of group company
- Pledge of marketable securities with appropriate margin based on average of high and low of market quotations during the preceding 6 months (this will not be accepted as exclusive security)
- Any other acceptable security

Bank welcomes preliminary discussions with the company officials to determine scope for EXIM banks finance. To facilitate discussions details of the proposed project are to be sent identifying requirements.

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