Unit-1 Import Export Finance- Import/Export credit, Financing foreign receivables advances against collection, discounting trade acceptance, Institutional support for export/import finance in India - RBI guideline, international chamber of commerce, stages of export/import finance, new schemes for export finance, foreign exchange guideline
Unit-2 Pre and Post shipment Export Credit- Introduction, need of export finance, Financing facilities, Pre shipment finance for exporters, Pre shipment credit in foreign currency (PCFC). Need for post shipment export finance, Mechanism of dispersal post shipment finance, gold card schemes for exporters, Interest equalization schemes.
Unit-3 Payment terms and Procedure- Introduction, advance payment, documents against payment, document against acceptance, letter of credit, Understanding the risk matrix in payment mode, factors affecting the choice of payment mode, modes of payment, methods of funds transfer.

Unit-1

1. Import/Export Credit:
Definition:
- Import Credit: It refers to the credit facility that allows importers to pay for goods or services purchased from foreign suppliers. This credit can take the form of loans, bills of exchange, or letters of credit (LCs) to ensure payment for imports.
- Export Credit: Export credit is financing provided to exporters to cover the risk of non-payment and to support them in trading with foreign buyers. It involves various forms of financing including pre-shipment and post-shipment finance.

Types of Export Credit:
1. **Pre-shipment Credit (Packing Credit):**
   - Financial assistance provided to exporters before shipment to cover the costs of manufacturing or purchasing goods for export.
   - Typically short-term loans provided to meet the immediate working capital needs of exporters.
2. **Post-shipment Credit:**
   - Credit given to exporters after the shipment of goods, usually against the export bill.
   - Includes Export Bills Discounting and Advance Against Export Receivables.
3. **Buyer's Credit:**
   - Credit extended to foreign buyers to finance the purchase of goods or services from Indian exporters.

---

2. Financing Foreign Receivables & Advances Against Collection:
- **Foreign Receivables Financing:**
  This is when an exporter receives financing based on the expected payments from foreign customers. The financing is generally done by banks or financial institutions, which offer advances against the receivables or bills of exchange.
- **Advances Against Collection:**
  When goods are shipped, exporters are often required to submit documents (invoices, bills of lading) for collection through a bank. The bank will provide the exporter with an advance against these documents, and once payment is received from the buyer, the bank settles the loan.
  - **Export Bill Collection involves two types:**
    - Documentary Collections: The exporter's bank collects payment on behalf of the exporter.
    - Clean Collections: No shipping documents are involved, only the invoice.

3. Discounting Trade Acceptance:

- **Trade Acceptance:**
  A trade acceptance is a written order to pay a specified amount on a certain date, typically used in international trade between the buyer and seller. It is a type of bill of exchange and functions like a promissory note.
- **Discounting:**
  - The process of discounting trade acceptances involves banks or financial institutions buying the trade acceptance from exporters at a discount, i.e., providing the exporter with immediate funds against future payments.
  - It helps exporters by providing liquidity before the buyer settles the payment.

4. Institutional Support for Export/Import Finance in India:
Several institutions and policies provide critical support for export/import finance in **India:**
a. Reserve Bank of India (RBI) Guidelines:

- RBI regulates and facilitates export/import finance by issuing guidelines on:
  - Export Credit Schemes: It ensures that banks provide financing to exporters at reasonable interest rates.
  - Exchange Rate Management: The RBI manages foreign exchange (forex) markets and sets guidelines for conversion and exchange.
  - Foreign Trade Policy (FTP): RBI works in conjunction with the Ministry of Commerce & Industry to formulate and regulate policies for enhancing trade.

b. Exim Bank (Export-Import Bank of India):

- EXIM Bank is India's premier financial institution offering comprehensive support for export and import credit, providing both pre-shipment and post-shipment financing, as well as buyer's credit and lines of credit to foreign buyers**.**

c. ECGC (Export Credit Guarantee Corporation):

- ECGC provides export credit insurance to safeguard exporters against the risk of non-payment by foreign buyers due to commercial or political reasons. It also assists in financing exports by covering the risks.

d. Commercial Banks:

- Banks like SBI, ICICI, HDFC, and others offer various financing options like Letter of Credit (LC), Export Bills Discounting, and Foreign Exchange Contracts to facilitate import and export businesses**.**

5. International Chamber of Commerce (ICC) Guidelines:

- The International Chamber of Commerce (ICC) provides a global framework for conducting international trade through Incoterms, UCP 600 (Uniform Customs and Practice for Documentary Credits), and ISBP (International Standard Banking Practice).
- UCP 600:
  This set of rules governs international letters of credit, ensuring uniformity and reliability in cross-border trade transactions.
- ICC Arbitration:
  The ICC also provides arbitration services for resolving trade disputes, including those in the context of international contracts and financing.

6. Stages of Export/Import Finance:
a. Export Finance Stages:

1. **Pre-shipment Stage:**
   - Financing during the manufacturing or procurement phase.
   - Packing Credit: Loan extended to the exporter to purchase raw materials or finished goods for export.
2. **Shipment Stage:**

- Financing is based on shipping documents.
- Post-shipment Credit: Provided after goods are shipped and invoices are raised.

3. **Post-shipment Stage:**
   - Financing against export receivables, often in the form of bill discounting or advance against collection.

b. Import Finance Stages:

1. **Pre-import Stage:**
   - Finance for purchasing goods from foreign suppliers. This often involves import loans or letters of credit.
2. **Import Stage:**
   - Financing is provided for paying for goods or services after shipment but before delivery.
3. **Post-import Stage:**
   - Payments may be settled through post-import credit or trade finance instruments like bank guarantees or import bills of exchange.

7. New Schemes for Export Finance:

a. Trade Credit Under New Export-Import Policies:

- **The Indian government has introduced several schemes to boost exports, including:**
  - Interest Equalization Scheme (IES): Provides interest subsidies to exporters, reducing the cost of credit.
  - Merchandise Exports from India Scheme (MEIS): Offers export incentives to boost the competitiveness of Indian goods in global markets.
  - Reimbursement of Freight Charges: This scheme helps reduce the logistics burden on exporters.

b. E-Advance System for Exporters:

- A new digital platform allows exporters to apply for advances, track their bills, and get faster financing against receivables.

c. Ease of Doing Business Initiatives:

- The government has launched several programs like GST Refunds for exporters, simplifying processes and reducing administrative delays.

8. Foreign Exchange Guidelines:

Foreign exchange regulations in India are governed by the Foreign Exchange Management Act (FEMA), which is managed by the Reserve Bank of India (RBI).

- Foreign Exchange Management Act (FEMA), 1999:
  - Regulation of Payments and Transactions: FEMA regulates payments, remittances, and foreign exchange transactions in India.
  - External Commercial Borrowings (ECBs): These are loans raised by Indian companies from foreign markets, which are regulated by FEMA.
  - Foreign Exchange Reserves: FEMA outlines rules for managing foreign exchange reserves held by India.
- Foreign Exchange Risk Management:
  - Forward Contracts: Exporters and importers can hedge currency risk using forward contracts.
  - Currency Swaps: These are agreements to exchange one currency for another at a future date, often used to hedge against currency fluctuations.

UNIT II
PRE AND POST SHIPMENT EXPORT CREDIT

Introduction - Pre Shipment Finance is issued by a financial institution when the seller wants the payment of the goods before shipment. The main objectives behind pre-shipment finance or pre-export finance is to enable exporter to:

- Procure raw materials.
- Carry out manufacturing process.
- Provide a secure warehouse for goods and raw materials.
- Process and pack the goods.
- Ship the goods to the buyers.
- Meet other financial cost of the business.

Types of Pre Shipment Finance

- Packing Credit
- Advance against Cheques/Draft etc. representing Advance Payments. Pre-shipment finance is extended in the following forms:
- Packing Credit in Indian Rupee
- Packing Credit in Foreign Currency (PCFC)

Requirement for Getting Packing Credit
This facility is provided to an exporter who satisfies the following criteria

- A ten-digit importer exporter code number allotted by DGFT.
- Exporter should not be in the caution list of RBI.
- If the goods to be exported are not under OGL (Open General License), the exporter should have the required license /quota permit to export the goods.

Packing credit facility can be provided to an exporter on production of the following evidences to the bank:

1. Formal application for release the packing credit with undertaking to the effect that the exporter would be ship the goods within stipulated due date and submit the relevant shipping documents to the banks within prescribed time limit.
2. Firm order or irrevocable L/C or original cable / fax / telex message exchange between the exporter and the buyer.
3. License issued by DGFT if the goods to be exported fall under the restricted or canalized category. If the item falls under quota system, proper quota allotment proof needs to be submitted.

The confirmed order received from the overseas buyer should reveal the information about the full name and address of the overseas buyer, description quantity and value of goods (FOB or CIF), destination port and the last date of payment.

Eligibility - Pre shipment credit is only issued to that exporter who has the export order in his own name. However, as an exception, financial institution can also grant credit to a third party manufacturer or supplier of goods who does not have export orders in their own name.

In this case some of the responsibilities of meeting the export requirements have been out sourced to them by the main exporter. In other cases where the export order is divided between two more than two exporters, pre shipment credit can be shared between them
Quantum of Finance - The Quantum of Finance is granted to an exporter against the LC or an expected order. The only guideline principle is the concept of NeedBased Finance. Banks determine the percentage of margin, depending on factors such as:

- The nature of Order.

- The nature of the commodity.
- The capability of exporter to bring in the requisite contribution.

Different Stages of Pre Shipment Finance

Appraisal and Sanction of Limits - Before making any an allowance for Credit facilities banks need to check the different aspects like product profile, political and economic details about country. Apart from these things, the bank also looks in to the status report of the prospective buyer, with whom the exporter proposes to do the business. To check all these information, banks can seek the help of institution like ECGC or International consulting agencies like Dun and Brad street etc.

The Bank extended the packing credit facilities after ensuring the following"

1. The exporter is a regular customer, a bona fide exporter and has a goods standing in the market.
2. Whether the exporter has the necessary license and quota permit (as mentioned earlier) or not.
3. Whether the country with which the exporter wants to deal is under the list of Restricted Cover Countries(RCC) or not.

Disbursement of Packing Credit Advance - Once the proper sanctioning of the documents is done, bank ensures whether exporter has executed the list of documents mentioned earlier or not. Disbursement is normally allowed when all the documents are properly executed.

Sometimes an exporter is not able to produce the export order at time of availing packing credit. So, in these cases, the bank provide a special packing credit facility and is known as Running Account Packing.

Before disbursing the bank specifically check for the following particulars in the submitted documents"

1. Name of buyer
2. Commodity to be exported
3. Quantity
4. Value (either CIF or FOB)
5. Last date of shipment / negotiation.
6. Any other terms to be complied with

The quantum of finance is fixed depending on the FOB value of contract /LC or the domestic values of goods, whichever is found to be lower. Normally insurance and freight charged are considered at a later stage, when the goods are ready to be shipped.

In this case disbursals are made only in stages and if possible not in cash. The payments are made directly to the supplier by drafts/bankers/cheques.

The bank decides the duration of packing credit depending upon the time required by the exporter for processing of goods.

The maximum duration of packing credit period is 180 days; however bank may provide a further 90 days extension on its own discretion, without referring to RBI.

Follow up of Packing Credit Advance - Exporter needs to submit stock statement giving all the necessary information about the stocks. It is then used by the banks as a guarantee for securing the packing credit in advance. Bank also decides the rate of submission of this stocks.

Apart from this, authorized dealers (banks) also physically inspect the stock at regular intervals.

Liquidation of Packing Credit Advance - Packing Credit Advance needs be liquidated out of as the export proceeds of the relevant shipment, thereby converting pre-shipment credit into post shipment credit.

This liquidation can also be done by the payment receivable from the Government of India and includes the duty drawback, payment from the Market Development Fund (MDF) of the Central Government or from any other relevant source.

In case if the export does not take place then the entire advance can also be recovered at a certain interest rate. RBI has allowed some flexibility in to this regulation under which substitution of commodity or buyer can be allowed by a bank without any reference to RBI. Hence in effect the packing credit advance may be repaid by proceeds from export of the same or another commodity to the same or another buyer. However, bank need to ensure that the substitution is commercially necessary and unavoidable.

Overdue Packing - Bank considers a packing credit as an overdue, if the borrower fails to liquidate the packing credit on the due date. And, if the condition persists then the bank takes the necessary step to recover its dues as per normal recovery procedure.

SPECIAL CASES

Packing Credit to Sub Supplier - Packing Credit can only be shared on the basis of disclaimer between the Export Order Holder (EOH) and the manufacturer of the goods. This disclaimer is normally issued by the EOH in order to indicate that he is not availing any credit facility against the portion of the order transferred in the name of the manufacturer.

This disclaimer is also signed by the bankers of EOH after which they have an option to open an inland L/C specifying the goods to be supplied to the EOH as a part of the export transaction. On basis of such an L/C, the subsupplier bank may grant a packing credit to the subsupplier to manufacture the components required for exports.

On supply of goods, the L/C opening bank will pay to the sub supplier's bank against the inland documents received on the basis of the inland L/C opened by them.

The final responsibility of EOH is to export the goods as per guidelines. Any delay in export order can bring EOH to penal provisions that can be issued anytime.

The main objective of this method is to cover only the first stage of production cycles, and is not to be extended to cover supplies of raw material etc. Running account facility is not granted to subsuppliers.

In case the EOH is a trading house, the facility is available commencing from the manufacturer to whom the order has been passed by the trading house. Banks however, ensure that there is no double financing and the total period of packing credit does not exceed the actual cycle of production of the commodity.

Running Account facility - It is a special facility under which a bank has right to grant preshipment advance for export to the exporter of any origin. Sometimes banks also extent these facilities depending upon the good track record of the exporter.

In return the exporter needs to produce the letter of credit / firms export order within a given period of time.

Preshipment Credit in Foreign Currency (PCFC) - Authorised dealers are permitted to extend Preshipment Credit in Foreign Currency (PCFC) with an objective of making the credit available to the exporters at internationally competitive price. This is considered as an added advantage under which credit is provided in foreign currency in order to facilitate the purchase of raw material after fulfilling the basic export orders.

The rate of interest on PCFC is linked to London Interbank Offered Rate (LIBOR). According to guidelines, the final cost of exporter must not exceed 0.75% over 6 month LIBOR, excluding the tax.

The exporter has freedom to avail PCFC in convertible currencies like USD, Pound, Sterling, Euro, Yen etc. However, the risk associated with the cross currency truncation is that of the exporter.

The sources of funds for the banks for extending PCFC facility include the Foreign Currency balances available with the Bank in Exchange, Earner Foreign Currency Account (EEFC), Resident Foreign Currency Accounts RFC(D) and Foreign Currency(Non Resident) Accounts.

Banks are also permitted to utilize the foreign currency balances available under Escrow account and

Exporters Foreign Currency accounts. It ensures that the requirement of funds by the account holders for permissible transactions is met. But the limit prescribed for maintaining maximum balance in the account is not exceeded. In addition, Banks may arrange for borrowings from abroad. Banks may negotiate terms of credit with overseas bank for the purpose of grant of PCFC to exporters, without the prior approval of RBI, provided the rate of interest on borrowing does not exceed 0.75% over 6 month LIBOR.

Packing Credit Facilities to Deemed Exports- Deemed exports made to multilateral funds aided projects and programmes, under orders secured through global tenders for which payments will be made in free foreign exchange, are eligible for concessional rate of interest facility both at pre and post supply stages.

Packing Credit facilities for Consulting Services - In case of consultancy services, exports do not involve physical movement of goods out of Indian Customs Territory. In such cases, Preshipment finance can be provided by the bank to allow the exporter to mobilize resources like technical personnel and training them.

Advance against Cheque/Drafts received as advance payment - 6. Where exporters receive direct payments from abroad by means of cheques/drafts etc. the bank may grant export credit at concessional rate to the exporters of goods track record, till the time of realization of the proceeds of the cheques or draft etc. The Banks however, must satisfy themselves that the proceeds are against an export order.

POST SHIPMENT FINANCE

Introduction - Post Shipment Finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds. Exporters don't wait for the importer to deposit the funds.

Basic Features - The features of post shipment finance are:

- **Purpose of Finance -** Post shipment finance is meant to finance export sales receivable after the date of shipment of goods to the date of realization of exports proceeds. In cases of deemed exports, it is extended to finance receivable against supplies made to designated agencies.
- **Basis of Finance-**Post shipment finances is provided against evidence of shipment of goods or supplies made to the importer or seller or any other designated agency.
- **Types of Finance -** Post shipment finance can be secured or unsecured. Since the finance is extended against evidence of export shipment and bank obtains the documents of title of goods, the finance is normally self liquidating. In that case it involves advance against undrawn balance, and is usually unsecured in nature.
- Further, the finance is mostly a funded advance. In few cases, such as financing of project exports, the issue of guarantee (retention money guarantees) is involved and the financing is not funded in nature.
- **Quantum of Finance -** As a quantum of finance, post shipment finance can be extended up to 100% of the invoice value of goods. In special cases, where the domestic value of the goods increases the value of the exporter order, finance for a price difference can also be extended and the price difference is covered by the government. This type of finance is not extended in case of preshipment stage.

  Banks can also finance undrawn balance. In such cases banks are free to stipulate margin requirements as per their usual lending norm.
- **Period of Finance-** Post shipment finance can be off short terms or long term, depending on the payment terms offered by the exporter to the overseas importer. In case of cash exports, the maximum period allowed for realization of exports proceeds is six months from the date of shipment. Concessive rate of interest is available for a highest period of 180 days, opening from the date of surrender of documents. Usually, the documents need to be submitted within 21days from the date of shipment.

Financing For Various Types of Export Buyer's Credit
Post shipment finance can be provided for three types of export :

- **Physical exports:** Finance is provided to the actual exporter or to the exporter in whose name the trade documents are transferred.
- **Deemed export:** Finance is provided to the supplier of the goods which are supplied to the designated agencies.
- **Capital goods and project exports:** Finance is sometimes extended in the name of overseas buyer. The disbursal of money is directly made to the domestic exporter.

Supplier's Credit
Buyer's Credit is a special type of loan that a bank offers to the buyers for large scale purchasing under a contract. Once the bank approved loans to the buyer, the seller shoulders all or part of the interests incurred.

Types of Post Shipment Finance
The post shipment finance can be classified as :

1. Export Bills purchased/discounted.
2. Export Bills negotiated
3. Advance against export bills sent on collection basis.
4. Advance against export on consignment basis
5. Advance against undrawn balance on exports
6. Advance against claims of Duty Drawback.

1. Export Bills Purchased/ Discounted.(DP & DA Bills) - Export bills (Non L/C Bills) is used in terms of sale contract/ order may be discounted or purchased by the banks. It is used in indisputable international trade transactions and the proper limit has to be sanctioned to the exporter for purchase of export bill facility.

2. Export Bills Negotiated (Bill under L/C) - The risk of payment is less under the LC, as the issuing bank makes sure the payment. The risk is further reduced, if a bank guarantees the payments by confirming the LC. Because of the inborn security available in this method, banks often become ready to extend the finance against bills under LC.
However, this arises two major risk factors for the banks:

1. The risk of nonperformance by the exporter, when he is unable to meet his terms and conditions. In this case, the issuing banks do not honor the letter of credit.
2. The bank also faces the documentary risk where the issuing bank refuses to honour its commitment. So, it is important for the for the negotiating bank, and the lending bank to properly check all the necessary documents before submission.
3. **Advance Against Export Bills Sent on Collection Basis -** Bills can only be sent on collection basis, if the bills drawn under LC have some discrepancies. Sometimes exporter requests the bill to be sent on the collection basis, anticipating the strengthening of foreign currency. Banks may allow advance against these collection bills to an exporter with a concessional rates of interest depending upon the transit period in case of DP Bills and transit period plus usance period in case of usance bill.
4. The transit period is from the date of acceptance of the export documents at the banks branch for collection and not from the date of advance.
5. **Advance Against Export on Consignments Basis -** Bank may choose to finance when the goods are exported on consignment basis at the risk of the exporter for sale and eventual payment of sale proceeds to him by the consignee.
6. However, in this case bank instructs the overseas bank to deliver the document only against trust receipt /undertaking to deliver the sale proceeds by specified date, which should be within the prescribed date even if according to the practice in certain trades a bill for part of the estimated value is drawn in advance against the exports.

In case of export through approved Indian owned warehouses abroad the times limit for realization is 15 months.

5. Advance against Undrawn Balance - It is a very common practice in export to leave small part undrawn for payment after adjustment due to difference in rates, weight, quality etc. Banks do finance against the undrawn balance, if undrawn balance is in conformity with the normal level of balance left undrawn in the particular line of export, subject to a maximum of 10 percent of the export value. An undertaking is also obtained from the exporter that he will, within 6 months from due date of payment or the date of shipment of the goods, whichever is earlier surrender balance proceeds of the shipment.

6. Advance Against Claims of Duty Drawback - Duty Drawback is a type of discount given to the exporter in his own country. This discount is given only, if the inhouse cost of production is higher in relation to international price. This type of financial support helps the exporter to fight successfully in the international markets.

In such a situation, banks grants advances to exporters at lower rate of interest for a maximum period of 90 days. These are granted only if other types of export finance are also extended to the exporter by the same bank.

After the shipment, the exporters lodge their claims, supported by the relevant documents to the relevant government authorities. These claims are processed and eligible amount is disbursed after making sure that the bank is authorized to receive the claim amount directly from the concerned government authorities.

Crystallization of Overdue Export Bills - Exporter foreign exchange is converted into Rupee liability, if the export bill purchase / negotiated /discounted is not realize on due date. This conversion occurs on the 30th day after expiry of the NTP in case of unpaid DP bills and on 30th day after national due date in case of DA bills, at prevailing TT selling rate ruling on the day of crystallization, or the original bill buying rate, whichever is higher.

Gold Card Scheme for Exporters

The Government (Ministry of Commerce and Industry), in consultation with RBI had indicated in the Exim Policy 2003-04 that a Gold Card Scheme would be worked out by RBI for creditworthy exporters with good track record for easy availability of export credit on best terms. Accordingly, in consultation with select banks and exporters, a Gold Card Scheme has been drawn up. The salient features of the Scheme are:

(i) all creditworthy exporters, including those in small and medium sectors with good track record would be eligible for issue of Gold Card by individual banks as per the criteria to be laid down by the latter;

(ii) banks would clearly specify the benefits they would be offering to Gold Card holders;

(iii) requests from card holders would be processed quickly by banks within 25 days / 15 days and 7 days for fresh applications / renewal of limits and adhoc limits, respectively;

(iv) 'in-principle' limits would be set for a period of 3 years with a provision for stand-by limit of 20 per cent to meet urgent credit needs;

(v) card holders would be given preference in the matter of granting of packing credit in foreign currency;

(vi) banks would consider waiver of collaterals and exemption from ECGC guarantee schemes on the basis of card holder's creditworthiness and track record, and

(vii) the concessive rate of interest on post- shipment rupee export credit applicable upto 90 days may be extended for a maximum period upto 365 days.

Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit

The Interest Equalization Scheme (IES) was first implemented on April 1, 2015, to provide pre and post-shipment export credit to exporters in rupees. An eligible exporter has to submit a certification of the external auditor to the concerned bank to claim this benefit. Banks provide Interest Equalization Scheme benefits to the eligible exporters and claim a reimbursement from the Reserve Bank of India based on the external auditor certification furnished by the Exporter. The scheme helps the identified export sectors to be internationally competitive and to achieve a higher level of export performance

2. Government of India has approved the extension of Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit (Scheme) up to March 31, 2024 or till further review, whichever is earlier. The extension takes effect from October 1, 2021 and ends on March 31, 2024. The modifications made by the Government to the Scheme are detailed below:

2.1 'Telecom Instruments' sector having six HS lines1 shall be out of the purview of the Scheme, except for MSME manufacturer exporters.

2.2 Revised interest equalisation rates under the Scheme will now be 3 per cent for MSME manufacturer exporters exporting under any HS lines, and 2 per cent for manufacturer exporters and merchant exporters exporting under 410 HS lines (after excluding 6 HS lines pertaining to Telecom Sector as mentioned above).

2.3 Banks, while issuing approval to the exporter, will necessarily furnish i) the prevailing interest rate, ii) the interest subvention being provided, and iii) the net rate being charged to each exporter, so as to ensure transparency and greater accountability in the operation of the Scheme.

2.4 The extended Scheme will not be available to those beneficiaries who are availing the benefit under any Production Linked Incentive (PLI) scheme of the government.

3. For the period from October 1, 2021 to March 31, 2022, banks shall identify the eligible exporters as per the Scheme, credit their accounts with the eligible amount of interest equalisation and submit sector-wise consolidated reimbursement claim for the said period to the Reserve Bank by April 30, 2022.

4. With effect from April 1, 2022, banks shall reduce the interest rate charged to the eligible exporters upfront as per the guidelines and submit the claims in original within 15 days from the end of the respective month, with bank's seal, and signed by authorised person, in the prescribed format, as modified (Annex I).

5. Other provisions of the extant instructions issued by the Bank on the captioned Scheme shall remain unchanged.

UNIT-III
PAYMENT TERMS AND PROCEDURE

1) Advance Payment –
- Money is paid first & then goods are sent.
- Suitable for sellers market or sellers monopoly situation.
- Based on trust of buyers on exporters.
- Don't sent advance if you don't know sellers.
- Ask for credit report of exporter.
- If product does not come to India against advance payment it is a criminal offence under Anti Money Laundering Act.
- 24 hours buyers risk.
- Buyers credit – Buyers organize for funds to procure goods.

2) Open Account –
- Market condition – Buyers market or recession in market (over supply and no buyer condition)
- Goods are sent first for selling, if sold payment is made for the goods sold & remaining goods sent back to exporter.
- Based on seller trust on buyers.
- Suppliers credit – When supplier organize for funds to send/selling of goods. Suppliers money at risk.

3) Collection Bills –
- Goods shipped to importer.
- Exporter presents documents to his bank along with bill of exchange for collection of payment/acceptance.
- Collecting bank which forwards the documents for collection/acceptance of the draft to the importers bank.
- Remitting bank – which forwards the documents for collection/acceptance the draft to the importer.
- Based on limited trust of seller on Buyer.
- 24 hrs suppliers risk.
- Bank acts as service agent/collecting agent and charges fee for services provided.
- Two types
  - i) Documents against payment (D/P) – Payment against sight draft sent along with documents.
  - ii) Documents against acceptance (D/A) – Remitting Bank hands over documents to the importer only upon acceptance of accompanying draft. Importer agrees to pay on due date. Under D/A always a period of credit (usance period), on expiry of which importer is required to make payment.

4) Letter of credit (Documentary credit)
- L/C also called as documentary credit
- Bank acts as committing agent.
- Bank charges L/C commission (for commitment and usance charge for the period.

L/c is an signed instrument containing an undertaking by the importer bank to pay to seller, the stipulated amount on shipment of specifying goods and subject to compliance with the stated terms and condition.

L/c is one of the most common instrument for setting payment between buyer and seller.
A L/c is demanded by the seller as a guarantee of the payment before affecting shipment.

Definition: "Letter of credit is a payment assurance from the issuing bank to the beneficiary which guarantees the payments to the beneficiary provided he fulfills all the conditions mentioned in the contract in right order and at the right time".

"Among all the international document letter of credit considered as the most essential one. It is also very important document for custom clearance of export and import consignment."

Parties to a letter of credit –

1) Importer/Applicant –

Applicant basically is a person who applies for letter of credit in the bank, he is the opener whose behalf the letter of credit is issued by Bank. Applicant is the importer and his credibility is very necessary in bank.

2) Applicants/Importers (Bank)/Issuing Bank –

Issuing bank is the Bank, which is in the importers country issues or opens the letter of credit on behalf of the importers.

3) Exporter/Beneficiary –

Exporter is the beneficiary of the letter of credit who is entitled to receive the payment of its bills according to the terms of credit.

4) Exporters Bank –

The bank who negotiates with exporter and provide him payment of shipment.

5) Confirming Bank –

It is the bank usually a branch or correspondent of the opening bank through which the credit is advised to the exporter. If it merely forwards the credit without any obligation on its part, it is called the Advising or Notifying Bank.

6) Negotiating Bank –

The Bank, which negotiates the Beneficiary bill under the credit and pays for it is known as paying/negotiating bank.

Contents of Letter of Credit –

1. Correct and complete name and address of the beneficiary (exporter)
2. Correct and complete name and address of the applicant (importer)
3. Type of the L/C
4. Amount of L/C
5. How the credit shall be available, i.e. by sight payment, deferred payments, acceptance or negotiation.
6. Name of the nominated bank, which shall make the payment to the beneficiary.
7. The name of the drawee on the draft and the tenor of the draft.
8. Term of delivery: FOB, CFR, CIF etc.
9. Description of goods, quantity and unit price.
10. List of documents required to be submitted by the beneficiary.
11. Port of discharge and place of final destination.
12. Status of transshipment; whether allowed or not.
13. Status of partial shipment; whether allowed or not.
14. Last date of sending shipment.
15. Date and place of expiry of the L/C
16. Time period for the presentation of the documents for negotiation by the beneficiary after the dispatch of the shipment.
17. Transfer of the L/C; whether allowed or not.
18. Mode of advice of the L/C; by mail or teletransmission.

Procedure/Steps Involved in L/C

1. Importer (opener) has concluded a purchase conduct for buying of certain goods with his overseas supplier who wants payment by a letter of credit. The importer asks his bank to open a letter of credit in favour of his overseas supplier (exporter).
2. After the request from the importer, bank consider the proposal his bank open its letter of credit in favour of the overseas supplier (exporter).
3. The advising bank can be intermediary bank in exports country which receives credit from the opening bank and after satisfying itself about the authenticity of the credit, it forwards the same to the beneficiary.
4. After receiving the credit form the advising bank the exporter checks it to ensure that it confirms to the terms of sale of contract and if necessary, asks the importer to effect amendments to the credit then proceeds to effect the shipment of the goods.
5. After the shipment is effected the exporter prepares the documents and draws his bill under the letter of credit for obtaining payment from the negotiating bank.
6. After getting the documents and bills from the exporter the negotiating bank checks them with letter of credit terms and condition and if in order, negotiates the bill payable to the exporter.
7. The importer's bank receives the bill and documents from negotiating bank (exporter's bank) checks them and if found in order, reimburses of, if reimbursement is obtained already confirms it to the negotiating bank. The importers bank presents the bill for acceptance/payment to the importer.
8. The importer receives the bill, checks the documents and accepts/pays the bill. On acceptance/payments importer gets the shipping documents covering the goods purchased.

Types of L/C

1. **Revocable L/C** – A revocable letter of credit on amended or cancelled by the issuing bank at any moment without prior notice to the beneficiary. The credit does not constitute a legal binding between the bank or banks concerned and the beneficiary because such a creditability be modified or cancelled at any moment without prior notice to the beneficiary.
2. **Irrevocable Letter of Credit** – An irrevocable letter of credit constitutes a definite undertaking of the issuing bank for the payment of the bills drawn under it. The L/C can neither be modified nor cancelled without prior approval of the beneficiary concerned and it is, therefore, widely accepted.
3. **Confirmed L/C** – When an issuing bank authorizes or request another bank to confirm its irrevocable L/C. A letter from the confirming bank added its confirmation. Such a confirmation constitutes a definite undertaking/guarantee of the confirming bank, then it can not claim to the exporter if issuing bank fails to give the payment.
4. **Unconfirmed L/C –** Unconfirmed letter of credit is one, which is not supplemented by additional guarantee from a bank in exporters' country.
5. **With Recourse L/C** – In the case of this L/C. if the overseas buyer fails to make payment with in a specified period, then the negotiating or paying bank can ask the beneficiary/exporter for the refund of the payment made under the L/C.
6. **Without Recourse L/C** – In this L/C the paying bank can not ask the exporter to refund the payments make to the exporter, if realization of payment from importer has become impossible.
7. **Revolving L/C** – In a revolving letter of credit, the credit is renewed automatically for the same amount and for the same period made available to the beneficiary again after a period of time on the advice of payments by the applicant or merely the fact that shipment has been made.
8. **Restricted and Unrestricted L/C** – Credit which do not specify any particular bank who is authorized to negotiate etc. is termed as unrestricted credit or open or general credit. If a specified bank is designed to pay accept or negotiate the credit it is termed as restricted or special credit.
9. **Back-to-Back L/C** – When the exporter uses his export letter of credits as a cover for opening a credit in favour of the local suppliers this credit is called back to back letter of credit.
10. **Anticipatory (letter of credit) (Red clause & green clause) –** The anticipatory credit provides for advance payment or at least part payment to the beneficiary against his undertaking to effect the

shipment and submit the bill and/or documents in terms of credit with in the validity. Red Clause – Red clause credit bears a clause in red authorizing negotiating bank to make on advance to the seller prior to shipment and tender of the documents. The advance will be liquidated from the proceeds of the bill negotiated. This advance is granted against exporters undertaking to tender documents in terms of credit with the validity. Green Clause – The green clause is an extension of the Red clause. In addition to pre shipment finance, it provides credit to the exporter to cover the period of storage of goods at the sea port.

11. **Deferred payment L/C** – In this sort of credit the exporter supplies plant and Machinery, capital goods etc. on deferred payments terms to an importer and no draft is drawn and payments by the opening bank is determined in accordance with the terms laid down in the credit.
12. **Transferable credit** – In a transferable letter of credit, the amount of credit may be transferred either in full or in part to a second beneficiary at the request of first beneficiary. This kind of credit is very useful in those cases where the importer is making imports through agent in the exporting country.
13. **Transit Credit** – It is issued in one foreign country with the beneficiary in another but it is advised through and usually confirmed by a bank in London.
14. **The Sight L/C** – In this credit the amount is payable as the prescribed documents have been presented and the bank has checked them, so the proceeds are normally immediately disposed of to the beneficiary. In case of unconfirmed credit situations can arise where the advising bank delays payments to the beneficiary until it has received the amount specified by the documents from the issuing bank.
15. **Usance L/C –** In addition to presenting the documents, the beneficiary is required to draw a time draft on a specific bank (issuing, advising). After the documents have been found to be in order, the exporter received the draft back after it has been accepted by the importers bank. It is possible to discount this bank acceptance, so the draft can be cashed in immediately by the seller while the draft amount will be charged by the buyer only upon maturity.
16. **Acceptance Credit –** An acceptance credit stipulates that the beneficiary must draws a bill of exchange for a particular tenor e.g. 60, 90 or 120 or 180 days sight and that the draft will be accepted by one of the following parties e.g.: (i) The applicant (ii) The advising bank (iii) The negotiating bank. But these credit are regarded as unsecured credits and therefore opened for the first class customers of undoubted standing who are considered capable enough to provide funds at maturity of the bill.
17. **Fixed L/C** – This L/C is used for a fixed amount only, which may be utilized in one or more drawings. The validity period is usually restricted and when the period expires or the total amount stands drawn, the facilities terminates.

Advantages of L/C to Exporter –

1. Prevents Blockage of finance.
2. Prevents bad debts
3. Fulfillments of import regulations.
4. Importer's obligation.
5. Help to procure pre-shipment finance.
6. Security against exchange control regulation of other country.
7. It forms more strong binding between seller and buyer.

Limitation of L/C to exporter –

1. Conditional undertaking – Quality quantity change bank will stop our payment.
2. Govt. Restriction – In certain circumstance L/C can't protect you to govt. action and it may become difficult to negotiate. It any policy is change in one country the payment is stop or delivery is stop so in some govt. restriction in L/C is limited.

Advantage of L/C to importer –

1. Better Terms of Trade: Better negotiation of the terms of trade is possible.

2. Guaranteed shipment.
3. Delivery in time.
4. Overdraft facility: On the basis of overdraft facility extended to the importer by the issuing bank, helps the importer to get the possession of goods without making actual payment against the L/C.
5. No advance payment is required.
6. Assurance about the quality.
7. Full scope of objection in case of slight non compliance with any condition and he will deliver the goods.

Limitation of L/C to importer –

1. It involves various banks so more charges has given to the bank.
2. If confirm L/C is demanded it puts a question mark on credibility of importer and his bank.

Need of L/C –

Assurance of credibility of exporter –

a) Before opening the L/C importer should check whether the exporter could be able to execute the project within the specified time period given in L/C or not.
b) Before opening the L/C the importer should check the part performance and record of the exporter.
c) As per the term and condition of L/C whether the exporter could be able to give right quality and quantity of goods.

Assurance of Payment –

a) Before opening of the L/C the exports should check the past performance of the importer.
b) Exporter should check the credibility of importer through his bank, embassy yellow pages or from relevant agents.

Availing Finance from Bank –

The bank give pre and post shipment finance to the exporter depending upon past performance good track or trade records and relation with bank.

Assurance of quality of goods –

As per the terms and conditions of L/C whether the exporter and condition of L/C whether the exporter could be able to give the right quality of goods according to international standard norms.

Evidence on terms & condition among the parties –

The terms and conditions of L/C should be obeyed by both importer & exporter and all the procedure should run according to L/C only. If any disputes arise on the subject matter of L/C than it act as a written proof.

Widely used & secured form of term of payment –

L/C is only secured form of terms of payment because various banks are involved in it and therefore less risk is involved in it.

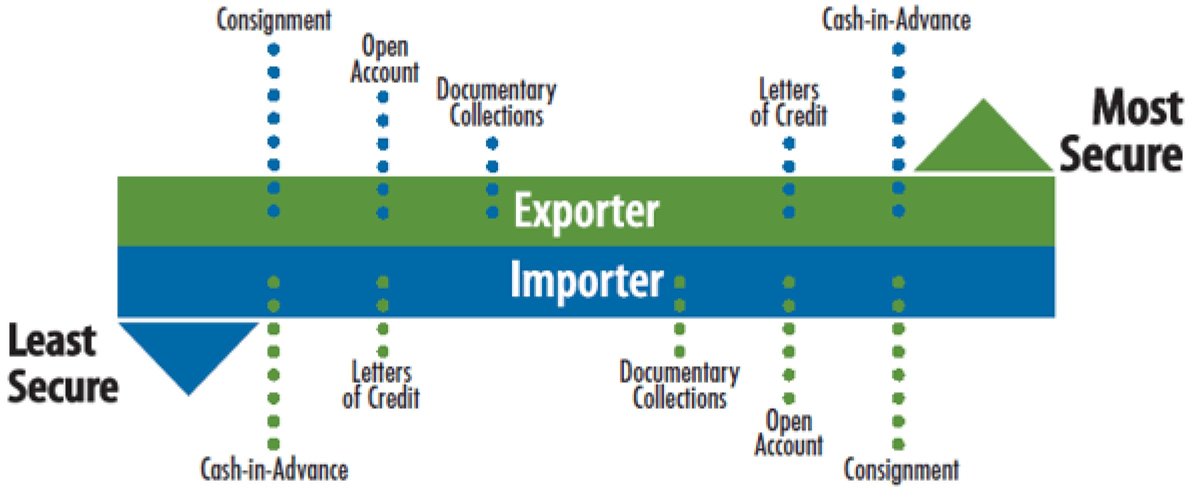
Precaution for L/C –

Precaution mean exporters or importers take relevant precautions in making the L/C at the time of contracting which are useful for the making of L/C.

- To check the beneficiary (exporter) by the importers Bank who is providing the money to the exporter on behalf of importer.

RISK MATRIX OF PAYMENT MODE IN INTERNATIONAL TRADE

A risk matrix for payment modes in international trade can help businesses assess and manage the various risks associated with different payment methods. Here is a simplified risk matrix outlining the risks associated with common international payment modes:



Cash in Advance:

Advantages:
Lowest risk for the exporter.
Guaranteed payment before shipment.
Disadvantages:
Risk for the importer, as payment is made before receiving the goods.
May lead to loss of business to competitors offering more flexible terms.
Risk Level: Low (for exporter), High (for importer)

Letter of Credit (L/C):

Advantages:
Provides a guarantee of payment.
Reduces the risk for both parties.
Disadvantages:
Complexity and cost associated with the L/C process.
Discrepancies in documents may cause delays in payment.
Risk Level: Moderate

Documentary Collections {D/P (Document against Payment)and D/A (Document against Acceptance)}:

Advantages:
More flexible than L/C.
Lower cost compared to an L/C.
Disadvantages:
D/P exposes the exporter to risks until payment is received.
D/A exposes the exporter to the risk of non-payment after accepting a time draft.
Risk Level: Moderate to High

Open Account:

Advantages:
Simplified process, fostering better relationships.
Lower transaction costs.
Disadvantages:
Highest risk for the exporter as payment is made after shipment.
May strain the relationship if payment is delayed.
Risk Level: High

Consignment:

Advantages:
Limited financial risk for the importer.
Disadvantages:
High risk for the exporter, as payment depends on actual sales.
Possibility of disputes over sold goods.
Risk Level: High (for exporter), Low (for importer)

Bank Guarantees:

Advantages:
Adds a layer of security for both parties.
Reduces financial risk.
Disadvantages:
May involve additional costs.
Complex documentation and procedures.
Risk Level: Moderate

Factors affecting choice of payment in international trade –

It's important to note that the risk level associated with each payment mode can vary based on factors such as the countries involved, the nature of the goods, and the relationship between the parties. Additionally, external factors such as economic conditions, political stability, and regulatory changes can impact the overall risk. Businesses should carefully evaluate these factors and choose payment methods that align with their risk tolerance and business objectives. Additionally, seeking advice from trade finance professionals and legal experts is recommended when navigating international payment risks.

The choice of payment methods in international trade is influenced by various factors, and businesses need to carefully consider these factors to determine the most suitable payment option for their transactions. Some of the key factors affecting the choice of payment in international trade include:

Nature of the Goods: Perishable or time-sensitive goods may require faster payment methods to expedite the shipping process.
High-value or specialized goods may necessitate secure payment methods to mitigate the risk of non-payment.

Relationship between Buyer and Seller: Established and trusted relationships may lead to more flexible payment terms, such as open account arrangements.
New or less-trusted relationships may require more secure payment methods, like letters of credit.

Risk Tolerance: The risk tolerance of both the buyer and the seller is crucial. Some parties may be more comfortable with higher-risk options, while others prefer more secure payment methods.

Transaction Size and Frequency: Large transactions may necessitate secure payment methods to manage higher financial risks.
Frequent transactions with the same partner may lead to more flexible payment terms as trust builds over time.

Costs and Fees: The associated costs and fees of each payment method, including bank charges and interest rates, can significantly impact the choice of payment.

Availability of Financing: The availability of financing options, both for the buyer and the seller, can influence the choice of payment method. For example, the buyer might seek credit terms, while the seller may prefer immediate payment.

Regulatory and Legal Considerations: The legal and regulatory environment in the countries involved can impact the choice of payment. Some countries may have restrictions on certain payment methods, and compliance with local laws is essential.

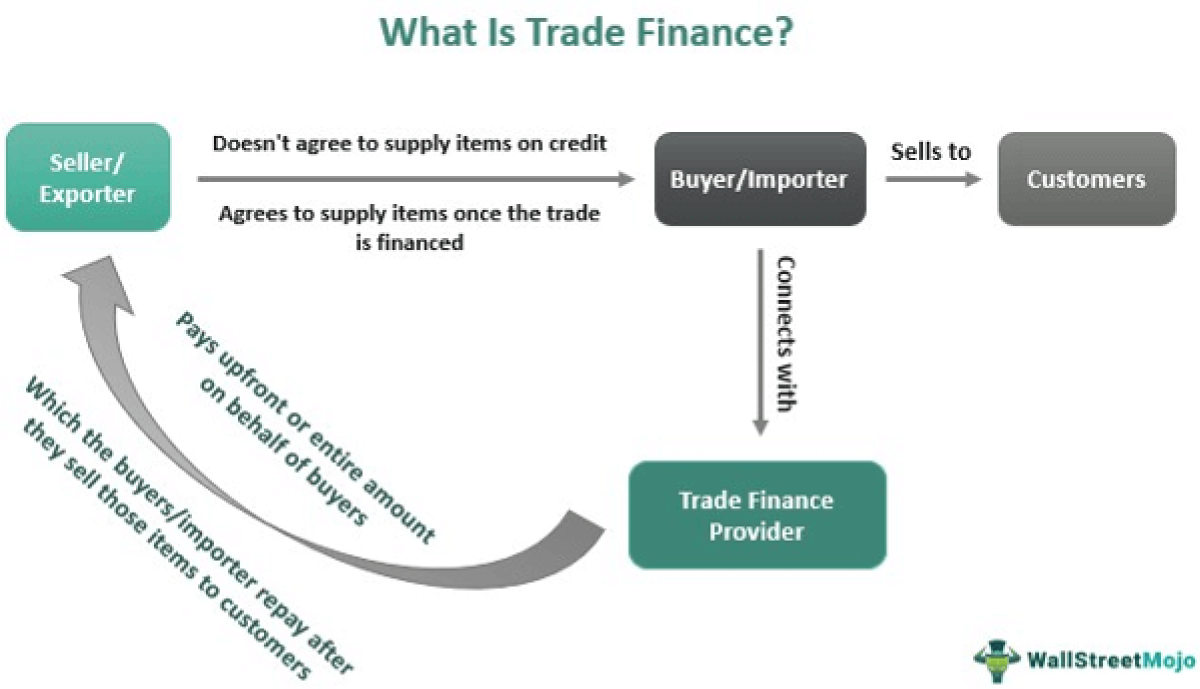
Currency Considerations: Exchange rate fluctuations and currency stability can affect the choice of payment. Both parties need to agree on the currency for the transaction and consider potential currency risks.

Shipping and Logistics: The choice of payment may be influenced by the logistics and shipping arrangements. Certain payment methods may be more suitable for specific shipping terms, such as CIF or FOB.

Market Practices: Industry and regional norms and practices can influence the choice of payment. Certain industries or regions may have commonly accepted payment methods

Creditworthiness of the Parties: The financial stability and creditworthiness of both the buyer and the seller play a significant role in determining the appropriate payment terms.
It's important for businesses engaged in international trade to carefully assess these factors and choose payment methods that align with their specific needs, risk appetite, and the nature of the transaction. Additionally, seeking advice from financial experts and trade professionals can help in making informed decisions.

Unit-4



Need of Trade Finance -

Trade finance plays a crucial role in facilitating international trade by providing the necessary financial instruments and tools to support the exchange of goods and services between different countries. Here are some of the key reasons why trade finance is essential:

1. Risk Mitigation: Trade finance helps mitigate various risks associated with international trade, including currency exchange rate fluctuations, political instability, and credit risk. For example, letters of credit and trade credit insurance can help protect parties involved in a trade transaction from financial losses due to these risks.

2. Working Capital Support: Exporters and importers often need working capital to finance the production, shipment, and receipt of goods. Trade finance instruments like trade loans and factoring provide short-term financing solutions to ensure smooth cash flow in the trade cycle.

3. Increased Liquidity: Trade finance can enhance a company's liquidity by providing access to funds that might otherwise be tied up in inventory or accounts receivable. This liquidity allows businesses to invest in growth, purchase raw materials, and meet other financial obligations.

4. Trade Documentation: Trade finance facilitates the creation and management of trade documentation, such as bills of lading, invoices, and certificates of origin. These documents are essential for customs clearance and the fulfillment of legal and regulatory requirements.

5. Market Expansion: By offering trade finance solutions, financial institutions can enable businesses to enter new markets and explore global opportunities. This can lead to increased sales, market diversification, and the development of new trading partners.

6. Cost Reduction: Efficient trade finance processes can help reduce the cost of doing business by optimizing cash flow and minimizing financing costs. By using trade finance instruments like open account transactions or supply chain financing, companies can lower their overall financial expenses.

7. Access to Foreign Markets: Trade finance can assist small and medium-sized enterprises (SMEs) in accessing foreign markets, as they may lack the financial resources to engage in international trade without external support.

8. Trade Facilitation: Trade finance supports the smooth flow of goods across borders by ensuring that payments are made promptly and that all necessary documents are in order. This helps reduce delays and avoid disputes in the trade process.

9. Risk Diversification: Trade finance allows financial institutions to diversify their portfolios and manage risk more effectively by offering a range of trade finance products, such as letters of credit, export credit insurance, and guarantees.

10. Economic Growth: Trade finance plays a vital role in promoting economic growth by stimulating international trade and investment, creating job opportunities, and fostering economic development in both exporting and importing countries.

In summary, trade finance is essential for promoting global trade, reducing risk, enhancing liquidity, and facilitating economic growth. It provides the financial infrastructure necessary for businesses to engage in international commerce and seize opportunities in the global marketplace.

Export Credit - an insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time. Export credits are generally divided into short-term, medium-term (usually two to five years repayment) and long-term (usually over five years). Export Credit Agencies (ECAs) provide these financial services to companies that do business abroad, particularly for business activities in the Global South. Most Global North countries have at least one ECA, which is usually an official or quasi-official branch of their government.

For export financing, where the exporter's bank is involved, the lender sends the appropriate funds to use as a deferred payment. For import financing, it's the importer's bank that pays the exporter, and the importer repays the lending institution the principal amount plus interest.

Import Credit - also known as import financing or trade credit, is a financial arrangement that allows businesses to purchase goods and services from foreign suppliers or overseas markets. It involves obtaining credit or a loan to finance the importation of goods or services.

Financing foreign receivables through advances against collection

A financial arrangement that allows a company to access funds by leveraging its accounts receivable from international customers. Here's how it typically works:

1. Accounts Receivable: A company engaged in international trade has outstanding invoices from foreign customers. These invoices represent the money owed to the company for goods or services sold.

2. Advance Provider: The company seeks financing from a financial institution or lender that specializes in international trade financing. This entity is often referred to as a trade finance provider or factoring company.

3. Due Diligence: The advance provider performs due diligence to assess the creditworthiness of the foreign customers. They evaluate the creditworthiness, payment history, and financial stability of these customers. This step is crucial in determining the level of risk and the terms of the financing arrangement.

4. Agreement: Once due diligence is completed, the advance provider and the company enter into an agreement specifying the terms of the financing. This agreement outlines factors such as the amount of the advance, the fee or discount charged by the provider, and the repayment terms.

5. Advance: The advance provider then advances a percentage of the face value of the foreign receivables to the company. This advance is typically a percentage of the total outstanding invoices, often around 70-90% of the receivables' value.

6. Collection Responsibility: The advance provider takes over the responsibility for collecting the outstanding invoices from the foreign customers. They have the necessary international expertise and resources to efficiently collect payments.

7. Repayment: As payments are collected, the advance provider deducts their fee and any other charges from the collected amounts. The remaining funds are remitted to the company. The company can also receive the remaining portion of the advance once the invoices are paid in full.

Advantages of financing foreign receivables through advances against collection include:

1. Improved Cash Flow: Companies can access cash quickly, improving their working capital and enabling them to reinvest in their business.

2. Reduced Risk: The advance provider takes on the risk of non-payment, which can be particularly beneficial when dealing with international customers with uncertain creditworthiness.

3. Expertise: Trade finance providers often have experience and resources for international collections, making the process more efficient.

4. Simplified Administration: Outsourcing collections can free up the company's resources, as they no longer need to chase payments from international customers.

However, this type of financing can be relatively expensive due to the fees charged by the advance provider. Companies should carefully consider the cost versus the benefits before entering into such arrangements. It's also important to choose a reputable and experienced advance provider to ensure smooth and reliable collections from foreign receivables.

Discounting trade acceptances, **trade acceptance discounting or trade acceptance financing -**
A financial arrangement that allows businesses to receive funds before the maturity date of their trade acceptances. Trade acceptances are a type of short-term, negotiable financial instrument used in business-to-business transactions.

Here's how trade acceptance discounting works:

1. Trade Acceptance Issuance: A seller sends goods or provides services to a buyer, and both parties agree on the payment terms, which typically include a specified future date when the payment is due.

2. Trade Acceptance Creation: The seller may create a trade acceptance, which is a written promise from the buyer to pay a specific amount on a future date. The trade acceptance will include details such as the due date, the amount owed, and the signatures of both the buyer and seller.

3. Trade Acceptance Discounting: The seller, who is in need of immediate funds, may opt to discount the trade acceptance at a financial institution, typically a bank. The bank purchases the trade acceptance from the seller at a discounted rate, which is lower than the face value. The discount represents the interest or fee charged by the bank for providing early payment.

4. Funds Disbursement: The bank provides the seller with the discounted amount in cash or as a deposit into their bank account. The buyer remains obligated to pay the full face value of the trade acceptance to the bank on the maturity date.

5. Repayment: When the maturity date arrives, the buyer pays the full face value of the trade acceptance to the bank. The difference between the face value and the discounted amount is the bank's profit.

   Trade acceptance discounting can be beneficial for both the seller and the financial institution:

1. Seller: It provides the seller with immediate access to cash, which can be used to meet short-term financial needs, pay suppliers, or invest in the business. It reduces the risk of late or non-payment by the buyer.

2. Financial Institution: The bank earns a profit through the discounting process, which compensates for the risk it takes on by purchasing the trade acceptance. This profit can be seen as interest earned on the early payment.

   It's important to note that trade acceptance discounting is common in international trade, where it helps bridge the gap between the time goods or services are delivered and the time payment is received. It's a form of trade finance that supports the cash flow needs of businesses involved in cross-border transactions.

General overview of the key RBI guidelines related to export-import finance in India:

Export Credit:

a. Pre-shipment Credit: RBI allows banks to provide pre-shipment credit to exporters to finance the purchase, processing, and packing of goods meant for export.

b. Post-shipment Credit: RBI guidelines cover post-shipment credit to exporters, which helps them realize the export proceeds.

c. Export Packing Credit in Foreign Currency (EPCFC): RBI allows exporters to avail of packing credit in foreign currency to facilitate export activities.

Export Bills:

a. Negotiation of Export Bills: Banks in India can negotiate export bills under various schemes such as Letter of Credit (LC), Documents against Acceptance (DA), or Documents against Payment (DP).

b. Realization and Repatriation of Export Proceeds: Exporters must realize and repatriate export proceeds within a specified period, as per RBI guidelines.

Import Finance:

a. Import Letter of Credit: RBI provides guidelines for the issuance and negotiation of import letters of credit by banks to facilitate imports.

b. Trade Credits: RBI regulates various trade credit options, such as suppliers' credit and buyers' credit, for imports.

External Commercial Borrowings (ECB):

a. RBI guidelines cover the borrowing of funds by Indian entities for financing import and other trade-related requirements through ECBs.

Monitoring and Reporting:

a. Exporters and importers are required to comply with various reporting and documentation requirements, as prescribed by RBI, to ensure transparency and adherence to foreign exchange regulations.

Hedging and Risk Management:

a. RBI guidelines may address currency risk management for exporters and importers through the use of forward contracts, options, and other financial instruments.

Export-Import Data Reporting:

a. Exporters and importers may be required to report their trade transactions electronically through systems like Electronic Data Interchange (EDI) or other designated platforms.

The International Chamber of Commerce (ICC) is a leading global business organization that serves as a platform for businesses and organizations to collaborate and advocate for policies and practices that promote international trade and investment. It was founded in 1919 and has its headquarters in Paris, France.
ICC plays a significant role in supporting and facilitating export-import finance. While the ICC itself does not provide financial services, it creates and promotes various rules, guidelines, and standards that are crucial for export-import finance operations. Here's how the ICC supports export-import finance:

Uniform Customs and Practice for Documentary Credits (UCP): The ICC publishes and maintains the UCP, a set of standardized rules that govern the use of letters of credit in international trade. Letters of credit are widely used in export-import transactions to provide financial security for both the exporter and the importer.

Uniform Rules for Collections (URC): The ICC has established the URC, which provides guidelines for documentary collections in international trade. Documentary collections are another common method of payment in export-import transactions.

Incoterms: The ICC's publication of Incoterms (International Commercial Terms) helps define the responsibilities, costs, and risks of buyers and sellers in international transactions. These terms are crucial in determining when and where the risk and costs transfer from the exporter to the importer.

Trade Finance Guidelines: The ICC has published guidelines and rules related to trade finance, which can include financing options such as export credit, export credit insurance, and export factoring. These guidelines help banks, financial institutions, and businesses navigate the complexities of trade finance.

Arbitration and Dispute Resolution: The ICC's International Court of Arbitration offers a forum for the resolution of trade finance disputes that may arise in international transactions, providing a reliable mechanism for resolving financial conflicts.

Trade Facilitation: The ICC advocates for trade facilitation measures that help streamline customs procedures and reduce trade barriers. This can improve the efficiency of export-import processes and indirectly support export-import finance by reducing delays and costs.

Trade Policy Advocacy: Through its global network and expertise, the ICC advocates for policies and regulations that support international trade. These policies can influence trade finance by creating a more favorable environment for businesses engaged in import and export.

While the ICC doesn't directly provide financial services, its rules, standards, and advocacy efforts are instrumental in providing a framework for export-import finance. These tools and guidelines help businesses, financial institutions, and trade professionals navigate the complexities of international trade and ensure that transactions are conducted efficiently and securely.

Export-import finance involves various stages to facilitate international trade transactions. These stages can vary depending on the nature of the transaction and the parties involved. Here are the typical stages of export-import finance:

Pre-Export Financing:

a. Market Research: This stage involves conducting market research to identify potential export opportunities and target markets.

b. Export Readiness Assessment: Assess your company's readiness to engage in international trade, considering factors like production capacity, quality standards, and compliance with regulations.

c. Export Licensing: Ensure compliance with export regulations and obtain any required export licenses.

d. Product Adaptation: Modify products or packaging to meet the specific requirements of the target market.

Sales Contract Negotiation:

a. Negotiation: Agree on the terms of the sales contract, including pricing, payment terms, delivery, and shipping terms.

b. Incoterms: Determine the appropriate Incoterms (International Commercial Terms) that specify the responsibilities of the buyer and seller in international trade transactions.

Export Financing:

a. Letter of Credit (L/C): The exporter may request the buyer to open an L/C, which is a bank's guarantee to pay the exporter upon the presentation of compliant documents.

b. Export Credit Insurance: Export credit insurance can protect the exporter against non-payment or other risks associated with international trade.

c. Export Factoring: Export factoring companies can purchase the exporter's accounts receivable, providing immediate funds while assuming the risk of non-payment.

d. Export Working Capital Loans: Exporters may secure working capital loans from banks to cover production and shipment costs.

Product Shipment:

a. Production and Quality Control: Ensure the products meet quality standards and are ready for shipment.

b. Packing and Labeling: Prepare the products for shipping, adhering to packaging and labeling requirements of the destination country.

c. Transportation and Logistics: Arrange for the transportation of goods to the port of departure, coordinate with freight forwarders, and book cargo space.

Customs Clearance and Documentation:

a. Export Documentation: Prepare the necessary export documents, including the invoice, packing list, bill of lading, and certificates of origin.

b. Customs Clearance: Ensure compliance with customs requirements and regulations at both the export and import sides.

c. Import Duties and Taxes: Determine and manage import duties and taxes associated with the shipment.

Import Financing:

a. Importer's Financing: Importers may require financing to pay for the goods upon arrival, which can involve trade credit, import loans, or letters of credit.

b. Import Credit Insurance: Importers may use credit insurance to protect themselves against non-delivery or other risks.

c. Import Factoring: Import factoring can help importers manage their cash flow and trade credit.

Payment Settlement:

a. Letter of Credit Compliance: Ensure that all documents presented to the bank under the L/C comply with the terms and conditions.

b. Payment Transfer: Once documents are accepted by the bank, the payment is transferred to the exporter.

Post-Import Financing:

a. Inventory Financing: Importers may need financing to manage their inventory and working capital.

b. Accounts Receivable Financing: Exporters may use accounts receivable financing to obtain funds based on outstanding invoices.

Each stage in the export-import finance process plays a crucial role in ensuring the smooth and secure flow of goods and funds in international trade. The specific stages and methods used can vary based on the specific transaction and the parties involved.

New schemes for export finance in India -

Export finance schemes in India are subject to change over time due to government policies and economic conditions. As of my last knowledge update in January 2022, I can provide you with some general information on export finance schemes in India. However, please note that there may have been updates or changes since then, and I recommend checking with the relevant government authorities or financial institutions for the most current information. Here are some key export finance schemes that were in place as of my last update:

Export Credit Guarantee Corporation (ECGC) Schemes:

ECGC offers various export credit insurance schemes to protect exporters against non-payment or payment default by overseas buyers.

These schemes include Export Credit Insurance, Export Credit Insurance for Project Exports, and more.

Pre-shipment Credit:

Banks provide pre-shipment credit to exporters to finance their working capital needs before shipping goods.

This credit helps cover various pre-export expenses such as raw materials, labor, and packing.

Post-shipment Credit:

Post-shipment credit is extended to exporters after shipment of goods to overseas buyers.

It helps bridge the gap between shipment and realization of export proceeds.

Export Promotion Capital Goods (EPCG) Scheme:

EPCG is an export incentive scheme that allows import of capital goods for pre-production, production, and post-production at a concessional customs duty rate.

It helps boost the competitiveness of Indian exporters by reducing the cost of capital equipment.

Interest Equalization Scheme:

The Interest Equalization Scheme aims to provide subsidized interest rates to exporters on pre-shipment and post-shipment credit to make Indian products more competitive in international markets.

Duty Drawback Scheme:

Duty drawback is a refund of customs and excise duties paid on imported and indigenous materials used in the manufacture of export goods.

This scheme helps exporters recover a portion of the duties paid and reduces the cost of production.

Merchandise Exports from India Scheme (MEIS):

MEIS offers export incentives to specified goods in the form of duty credit scrips.

These scrips can be used to pay various import duties and taxes or sold in the market.

Service Exports from India Scheme (SEIS):

SEIS provides rewards to service exporters based on their net foreign exchange earnings.

Eligible service providers can claim incentives in the form of duty credit scrips.

It's essential to check the latest government notifications, circulars, and policies to understand the current export finance schemes and their specific terms and conditions. Additionally, consider consulting with financial institutions or export promotion agencies in India for the most up-to-date information and guidance on availing export finance schemes.

The Reserve Bank of India (RBI)'s comprehensive foreign exchange guidelines that govern various aspects of foreign exchange transactions in India –

These guidelines are essential for individuals, businesses, and financial institutions engaging in foreign exchange activities. As of my last knowledge update in January 2022, here are some key aspects of RBI's foreign exchange guidelines:

Foreign Exchange Management Act (FEMA): FEMA is the primary legislation that governs foreign exchange transactions in India. It replaced the Foreign Exchange Regulation Act (FERA) and liberalized foreign exchange regulations.

Authorized Dealers: Under RBI guidelines, banks and other financial institutions authorized by the RBI play a crucial role in facilitating foreign exchange transactions. They are responsible for ensuring compliance with the regulations.

Current and Capital Account Transactions: RBI categorizes foreign exchange transactions into current account and capital account transactions. While current account transactions are relatively liberalized, certain capital account transactions may be subject to restrictions or approval.

Exchange Control:

RBI maintains control over the exchange rate and can intervene in the foreign exchange market to stabilize the rupee's value.

The exchange rate is managed through a system of managed float.

Foreign Exchange Reserves: RBI accumulates and manages foreign exchange reserves to ensure stability in the exchange rate and to meet external payment obligations.

Foreign Direct Investment (FDI): RBI guidelines specify the rules and regulations governing foreign direct investment in India, including the sectoral caps and conditions for investment.

External Commercial Borrowings (ECB): RBI regulates the borrowing of funds from foreign sources by Indian entities. There are ECB norms and limits that must be followed.

Export and Import Transactions:

RBI guidelines govern export and import transactions, including documentation, payment terms, and procedures for reporting to the authorities.

The Electronic Data Interchange (EDI) system is used for seamless reporting of trade transactions.

Liberalized Remittance Scheme (LRS): RBI allows resident individuals to remit a certain amount of money abroad for various purposes, subject to annual limits and conditions.

Know Your Customer (KYC) and Anti-Money Laundering (AML) Guidelines: RBI has established stringent KYC and AML procedures to prevent money laundering and ensure transparency in foreign exchange transactions.

Reporting Requirements: Entities engaged in foreign exchange transactions are required to report their transactions to RBI and other relevant authorities as per the guidelines.

Foreign Exchange Management Information System (FEMIS): RBI has established FEMIS, an online portal, for the electronic reporting of foreign exchange transactions.

Please note that these guidelines are subject to change, and new regulations may have been introduced since my last update. It is essential to refer to the latest notifications and circulars issued by the RBI, as well as consult with authorized dealers or experts in foreign exchange regulations to ensure compliance with the most current rules and requirements.