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SUBJECT - INTERNATIONAL MARKETING

UNIT - 5 – TOPIC - EXPORT FINANCE

PART - 1

BY AJAY JAIN

EXPORT FINANCE

Exporter needs finance both at the pre-shipment stage and at the post shipment stage. The finance required to meet various expenses before shipment of goods is called as per-shipment finance or packing credit. The finance which is provided by banks after shipment of goods comes under post-shipment finance.

In India, financial institution like commercial banks SIDBI and EXIM bank are directly concerned with export financing. The reserve bank of India, is indirectly concerned with export financing, as it frames rules and regulations regarding terms and conditions of export finance to be followed by commercial banks and other financial institutions. The ECGC is also connected with export financing. It protects the exporters against risks of non-payment by the importer.

The exporter may require short, medium and long term finance. The short term finance is required to meet "Working Capital" needs. The working capital is used to meet regular and recurring needs of a business firm. The regular and recurring finance needs of a business firm refers to purchase of raw materials, payment of wages and salaries expenses like payment of rent, advertising etc.

The exporter may also require "Term Finance". The term finance or term loans which is required for medium term and for long term .The term finance is required to finance fixed assets and long-term working capital needs.

PRE-SHIPMENT FINANCE

MEANING

Pre-shipment finance also popularly known as packing credit. It is an advance credit facility contained by an exporter from a bank or financial institution. The reserve bank of India defines it as “any loan to exporter for financing the purchase, processing, manufacturing or packing of goods‟. Precisely, it is an interim advance provided by a bank for helping the exporter to purchase, process, and pack and ship the goods. Packing credit is working capital extended to an exporter.

FEATURES OF PRE-SHIPMENT FINANCE

The salient features of packing credit are as follows

1. Eligibility-

Packing credit is granted to those exporters who have export order or a letter of credit in their name from the foreign buyer. An indirect exporter can also obtain packing credit if:

a) He produces a letter from concerned export house or other concerned party stating that a portion of the export has been allotted in this favour.
b) b) The export houses or other concerned party should also state that they don’t wish to obtain packing credit for the same.

2. Purpose-
Packing credit is provided to the exporter to meet working capital requirements before shipment of goods such as payment of raw material, payment of wages etc.

3. Documentary Evidence-
Pre-shipment finance is granted against the evidence of irrevocable L/C confirmed order for export. The document of L/C confirmed order must be deposited with the lending institution.

4. Form of Finance-
Packing credit can be either in the form of funded or non-funded advance. Red Clause/Green clause L/Cs are the forms of funded finance. Non-funded facilities include domestic L/Cs, back-to-back L/Cs and various guarantees.

5. Amount of Packing Credit-
The amount of packing credit depends on the amount of export order and credit rating of the exporters by the bank. The bank may also consider the export incentives receivable such as DBK, IPRS etc.

6. Period of Packing Credit-
It is normally granted for a period of 180 days. Further extension of 90 days is considered with the prior permission of RBI.

7. Rate of Interest-
Packing credit is provided at a concessional rate of interest. The difference in normal rate of interest and export finance rate of interest is reimbursed by RBI to banks.

9. Maintenance of Accounts-
As per RBI directives bank must maintain separate accounts in respect of each pre-shipment advance. However, running accounts are permitted in case of certain items produced in FTZs/EPZs and 100% EOUs.

10. Disbursement of loan-
Normally, pre-shipment finance advance not sanctioned in lump sum, but it is disbursed in a phased manner.

11. Monitoring The Use of Advance-
The bank advancing packing credit should monitor the use of pre-shipment finance by exporter i.e. whether the amount is used for export purpose or not penalty can be imposed for misuse.

12. Repayment-

The exporter is expected to liquidate or repay the amount of advance together with interest charge as soon as the export proceeds or incentives are realized.

POST-SHIPMENT OF FINANCE

MEANING

When an advance or a loan is needed by an Indian exporter after completing the process of shipment of goods, it is termed as “Post-shipment Finance”. This finance is needed after making the shipment and before realization of payment from overseas buyers. Post-shipment finance is provided to meet working capital requirements after the actual shipment of goods.

FEATURES The main features of post-shipment finances are as follows-

1. Eligibility- This facility is available to the exporters who have actually shipped the goods or to an exporter in whose name the export documents are transferred.

2. Purpose- Post-shipment finance provides working capital to the exporter from the date of shipment to the date of realization of export proceeds.

3. Documentary Evidence- It is extended against the evidence of shipping documents indicating the compliance of actual shipment of goods or other necessary evidence in case of deemed and project exports.

4. Forms of Post-Shipment Finance- Banks provide post-shipment finance under different forms such as discounting of export bills, advance against goods sent on consignment basis, advance against retention money etc.

5. Amount of Post-Shipment Credit- The amount of post-shipment finance depends upon the working capital requirements of the exporter after shipment of goods.

6. Period of Post-Shipment Finance- Short term loan is provided by commercial banks usually for 90 day. EXIM bank provide medium term finance for a period between 90 day and 5 years and long term loan provided by EXIM bank in case of export of capital goods and turnkey projects for a period between 5 years and 12 years.

7. Rate of Interest- Post-shipment finance facility is granted at a concessional rate of interest, as compared to the rate of interest charged for domestic or local parties.

8. Loan Agreement- The exporter is required to execute a formal loan agreement with the bank before the amount of loan is actually disbursed.

9. Maintenance of Accounts- As per RBI directives, banks must maintain separate account in respect of each post-shipment advance. However, running accounts are permitted in case of units in SEZ/EPZ and 100% EOUs.

10. Disbursement of Loan Accounts- Normally, post-shipment credit advances are not given in lump sums. It is disbursed in instalments as and when required by the concerned exporter.

11. Monitoring the use of Advance- The bank advancing post-shipment credit should monitor, the use of post-shipment credit by the exporter i.e. whether the amount is used for export purpose or not. Penalty can be imposed for misuse.

THANK YOU