

INSTITUTE OF LAW, JIWAJI UNIVERSITY, GWALIOR

COURSE - B.COM. LL.B. FIVE YEAR

SEMESTER – VI

SUBJECT - INTERNATIONAL MARKETING

UNIT - 5 – TOPIC – EXPORT FINANCE

PART - 2

BY AJAY JAIN

ROLE OF COMMERCIAL BANKS

The exporter is expected to repay the amount of loan to the bank as soon as he receives export proceeds. Generally, the lending bank itself realizes the export proceeds from the importer's banks.

Commercial banks provide a major part of export finance. They extend financial assistance both at pre-shipment as well as post-shipment levels to exporters not only on priority basis but also on liberal terms.

The directives of Reserve Bank of India under Exchange Control Regulation Act make it obligatory for payments of exports to be settled through the medium of a bank in India authorized to deal in foreign exchange.

Commercial banks services are divided into

- (a) Fund Based Assistance (Financial Services)
- (b) Non-Fund Based Assistance (Non-Financial Assistance)

(c) FUND BASED ASSISTANCE

The commercial banks provide fund based activities at pre-shipment stage and post-shipment stage.

(i) Pre-Shipment Stage The commercial banks provide finance on short terms basis for a normal period of 180 days at a very concessional rate of interest. The various forms of advance are cash packing credit loan, advance against hypothecation, advance against pledge etc.

(ii) Post-Shipment Stage The commercial banks provide finance at the post-shipment stage normally for a period of 90 days at a concessional rate of interest. The various forms of post-shipment finance are negotiation of bills drawn under LC, purchase/discounting of bills, overdraft against bills under connection etc.

(b) NON-FUND BASED ASSISTANCE

(I) Banks Guarantees

Banks are authorized to issue guarantees and furnish bid bonds in favour of overseas buyers. The various guarantees issued by banks are-

- 1. Bid Bonds** – Banks issue bid bonds to enable exporters to participate and quote price in various global tenders.
- 2. Preference Guarantee** – It is required in case of export of capital goods and turnkey projects and construction contracts.
- 3. Advance Payment Guarantee** – The banks also issue advance payment guarantee to the overseas buyer who normally makes certain advance payment to the Indian exporter against a bank guarantee.

4. Guarantee for Payment of Retention Money – Banks issue a guarantee for payment of retention money by the overseas party who would release the retention money to the Indian party only after receiving guarantee from bank.

5. Guarantee for Foreign Currency Loans – It is sanctioned by financial institution abroad to Indian exporters who raise funds to finance their projects abroad.

(ii) Credit Rating of Importers

Banks undertake credit rating of importers on request from exporters. They collect important information about their credit worthiness and supply the same to the exporters.

(iii) Information about Foreign Exchange

Banks also provide information on the exchange rates of various countries.

(iv) Dollar Account Commercial banks provide services to their clients by opening 25% dollar account. Under this account, an exporter is allowed to retain 25% of the receipts in foreign currency accounts with a bank in India; these accounts help exporters to meet payment in foreign currencies.

(v) Invoicing in a Foreign Currency Sometimes a buyer insists for invoicing in a foreign currency which is generally suitable to him. Banks provide necessary information on this matter, such as whether the said currency is marketable or not, if the contract is not for major currencies.

(vi) Confirmation of Letter of Credit Banks also undertake the job of advising and confirming of L/C opened by importers.

(vii) Forward Exchange Contracts Banks cover the risks of fluctuations in foreign exchange rates by fixing the rate in advance for future transactions. Such rates are known as forward exchange rates.

(viii) Currency for Invoicing Services Banks provide foreign currencies for invoicing services, as all currencies are not readily available and may require prior permission for their release.

EXPORT-IMPORT BANK OF INDIA (EXIM BANK)

MEANING The EXIM bank of India is a public sector financial institution established on 1st January, 1982. It started operating from 1st march, 1982. It was established by an Act of Parliament, for the purpose of financing, facilitating and promoting foreign trade. It is also the principal financial institution for coordinating the working of institutions engaged in financing India's foreign trade.

This bank was mainly created for the purpose of financing medium and long term loans to exporters there by promoting the country's foreign trade.

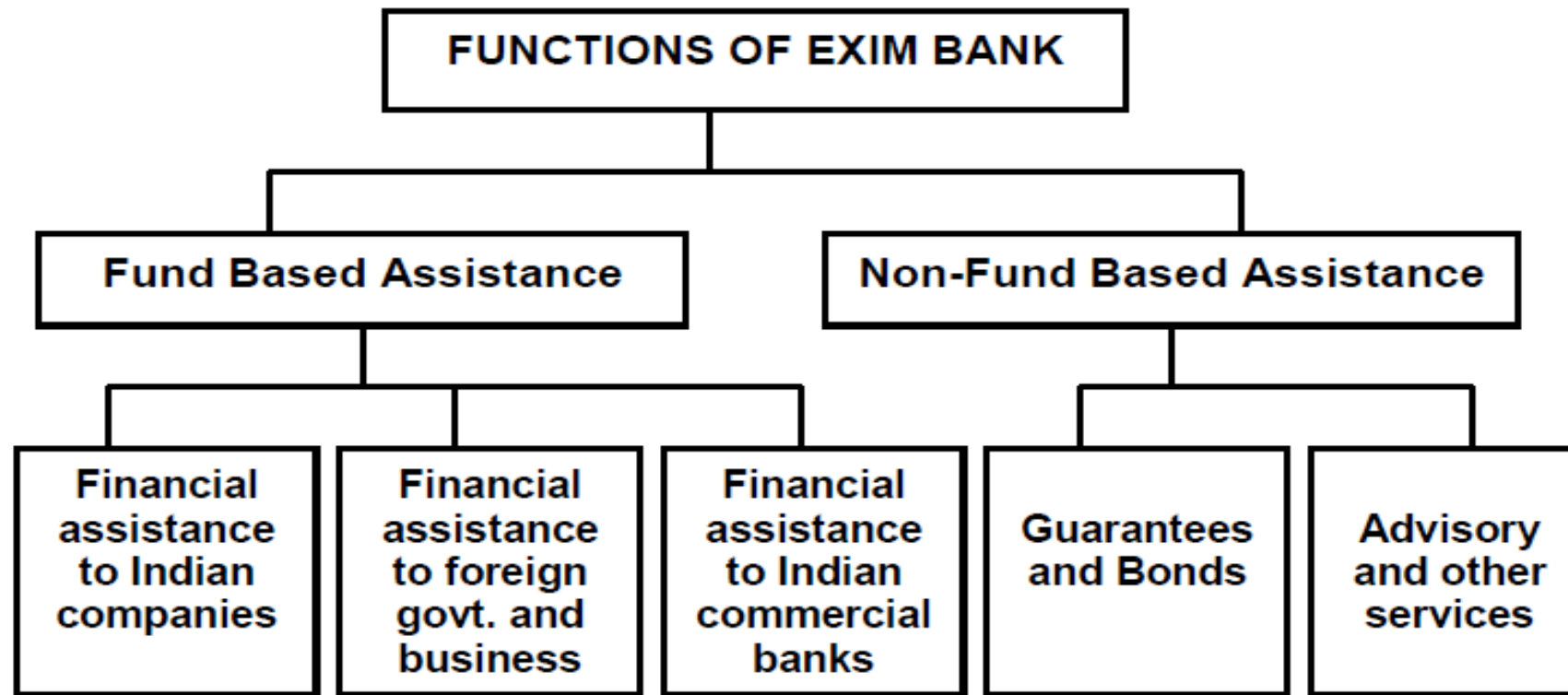
OBJECTIVES OF EXIM BANK

The main objectives and purposes of EXIM bank are as follows

1. Financing of export and imports of goods and services not only of India but also of third world countries.
2. Financing of joint ventures in foreign countries.
3. Financing of Indian manufactured goods, consultancy and technological services of deferred payment terms.
4. Financing R&D and techno-economic study.
5. Co-financing global and regional development agencies.

FUNCTIONS OF EXIM BANK

The assistances offered by EXIM bank to the exporters can be grouped under the following three categories.



i) FUND BASED ASSISTANCE

EXIM bank provides direct loans to exporters, refinance, overseas buyers' credit, foreign lines of credit, overseas investment finance and pre-shipment credit. EXIM bank re-discounts export bills, and extends re-lending facility to banks abroad. It renders technology and consultancy services.

EXIM bank provides term finance for export oriented units. It assists programme. It assists SSI who are exporting by its bill re discounting programme. It also has on „agency credit line“ with IFC. It refinances exports of computer software.

Fund based assistance is divided in to three broad groups. These are as follows.

1. Financial Assistance to Indian Companies

EXIM bank provides loans to Indian exporters in the following manner

- (a) Financial assistance on deferred payment terms.
- (b) Consultancy & Technology services.
- (c) Pre-shipment credit.
- (d) Facilities for export oriented units.
- (e) Facilities for deemed export.
- (f) Overseas investment financing.

2. Financial Assistance to Foreign Government and Business Firms

EXIM bank also provides loans to foreign governments, companies and financial institutions in the following ways.

- (a) Overseas buyers credit
- (b) Lines of credit to foreign governments.
- (c) Relending facility to banks overseas.

3. Financial Assistance to Indian Commercial Banks

EXIM bank provides loans to Indian commercial banks as shown below.

- (a) Export bills rediscounting
- (b) Refinance of export credit

ii) NON-FUND BASED ASSISTANCES

Non-fund based assistances provides cover assistance, retent on money, guarantees etc.

1. Guarantees and Bonds

EXIM bank provides non-fund based assistance in the form of guarantees in the nature of bid bonds, performance guarantee etc. These guarantees are provided together with commercial banks.

2. Advisory and Other Services

EXIM bank adviser Indian companies, in executing contract abroad, and on sources of overseas financing. It advises Indian exporters on global exchange control practices.

EXIM bank offers financial and advisory services to Indian construction projects abroad; it advises small scale manufacturers on export markets and product areas. EXIM bank provides access to euro financing sources and global credit sources to Indian exporters. It assists the exporters under forfeiting scheme.

EXIM bank also provides advisory services relating to marketing research, merchant banking, foreign exchange, risk syndication, dissemination of information through publications.

THANK YOU

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the frame, creating a dynamic, layered effect. The rest of the background is plain white.