3.1 In the various export-financing operations, a bank, in addition to safeguarding its own business and complying with the Rules and Regulations in general and charging the standardised rates of commission/interest in particular, as laid down by the Foreign Exchange Dealers' Association of India (FEDAI), has to act on behalf of three other important parties, i.e. -

(1) the exporter;
(2) the Reserve Bank of India; and
(3) the foreign correspondent bank.

I. THE OBLIGATIONS OF THE BANK TO ITS EXPORTER - CUSTOMER ARE:

(A) providing credit accommodation, if required by the exporter;
(B) safeguarding his interests at the foreign end, by controlling the documents of title to the merchandise, until the payment or acceptance of the claim is made, as instructed by the exporter;
(c) providing facilities to insure against fluctuations in exchange rates; and
(d) providing guarantees, if required by the foreign buyer, etc.

II. THE OBLIGATIONS OF THE BANK TO THE RBI ARE:

(A) ensuring that the export payment terms are in accordance with the terms stipulated by the latter;
(B) ensuring that the entire export proceeds are realised from abroad and reported to the Exchange Control authority of the RBI;
(C) ensuring that all payments on account of commission, discount, etc are in accordance with the rules and regulations, prescribed by the RBI, etc.

III. THE OBLIGATIONS OF THE BANK TO THE FOREIGN CORRESPONDENT BANK ARE:

(A) advising/handing over the export letters of credit, if letter of credit is opened by the foreign bank;

(B) adding confirmation on letter of credit, whenever requested;

(c) negotiating export documents as per the terms of the letter of credit;

(d) furnishing credit report on the exporters, if requested, etc

IV. MAJOR FUNCTIONS OF THE EXPORT SECTION:

Functional structure of Foreign Exchange Business, in a major designated branch is outlined in Table. 3.1.

In rendering various services to the exporters, the major functions required to be performed in the Export Section of the Foreign Exchange Department of a bank, relate to:

1. Packing Credit Advance
2. Advising/confirming Export Letters of Credit
3. Negotiation/Purchase of Bills under Letters of Credit
4. Negotiation/Purchase of Bills without Letters of Credit
5. Advances against bills sent on collection basis
6. Advances against exports on consignment basis
7. Financing claims against Export Incentives.
8. Registration of Export Contracts
9. Loan against undrawn balances
10. Advances against undrawn balances
11. Advances against retention money
12. Export credit Interest subsidy
13. Export on Deferred Payment Terms and Project Exports
14. Guarantees related to exports
15. Foreign Exchange Dealings and Forward Contracts
16. Export Credit Insurance and Guarantee Facilities
17. Advisory Role and Counselling Services

V. Financial assistance extended to exporters, on priority basis, on relatively liberalised terms, through banks, is one of the important incentives offered by the Govt. of India, to the exporter community for boosting exports. An exporter may require financial assistance at pre-shipment and/or post-shipment stage. Pre-shipment finance is extended, prior to shipment, for the purchase of raw material, processing, packing, transportation, warehousing, etc., of goods meant for exports. Post-shipment finance is extended, after shipment, to bridge the time lag between the shipment of goods and the realisation of proceeds.

While extending such facilities, banks are mainly governed, on one hand, by the guidelines issued by the RBI, under the Export Credit (Interest subsidy) Scheme 1968, the rules of the Foreign Exchange Dealers' Association of India, the Trade Control and Exchange Control Regulations and the
International Conventions and Codes of the International Chamber of Commerce, and on the other hand, by its own requirements.

**TABLE 3.1**

**FUNCTIONAL STRUCTURE OF FOREIGN EXCHANGE BUSINESS**
*(IN A MAJOR DESIGNATED BRANCH)*

<table>
<thead>
<tr>
<th>Export Financing</th>
<th>Import Financing</th>
<th>Miscellaneous</th>
<th>Remittances</th>
<th>Foreign Business Department</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Inward</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Outward</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Business contacts (Indian)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Business contacts (Foreign)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Travellers' Foreign Forward Agency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Reconciliation Statements</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Travellers' Forward Agency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Reconciliation to RBI</td>
</tr>
</tbody>
</table>

| Packing | Export Negotiations | Export Outward Financing | Credit L/C under L/C bills | Bills against | Export
|---------|---------------------|----------------------------|-----------------------------|---------------|-------------------|
|         | Export Negotiations | Export Outward Financing | Credit L/C under L/C bills | Bills against | Export
|         |                     |                             |                           |               |                   |
|         |                     |                             |                           |               |                   |
|         |                     |                             |                           |               |                   |
|         |                     |                             |                           |               |                   |
|         |                     |                             |                           |               |                   |

Guarantees related to Exports

Advisory role/counselling
3.2 PRE-SHIPMENT FINANCE: PACKING CREDIT ADVANCE:

I. DEFINITION AND PURPOSE:

Packing Credit is an advance granted by a commercial bank to an eligible exporter/manufacturer/export house, etc., for the purpose of financing exports, at the pre-shipment stage. The purpose of the advance includes purchase of raw materials or the purchase of finished goods, their manufacturing, processing, packing, transporting, warehousing, etc., for export. Once the goods are ready for exporting, some banks convert the packing credit/pre-shipment finance into what are called "Shipping Loans". Shipping loans also form one type of packing credit.

The exporter must hold a "Code Number", assigned to him by the RBI. Vide Rule 4 of the Foreign Exchange Rules 1974, framed by the Central Government, every person/firm/company engaged in export trade, is required to obtain a code number from the RBI. Here also, the exporter’s bank has a role to play. The bank should submit to the RBI, a report on the means and standing of the exporter firm or company, indicating the names and addresses of its proprietor/partners/directors, nature of business, date of establishment, date of opening the bank account, etc. Only after this bank report is received, the RBI will allot the code number to exporter. This, therefore, pre-supposes that the exporter must also be an account-holder of the bank.

The pre-shipment credit an exporter needs is nothing but working capital finance required by him, for purchase of raw
materials, processing them and converting them into finished goods, for the purpose of export. This should, normally, be on the basis of letters of credit opened, in his favour, by an importer of the goods outside India, OR a confirmed order for the export of goods from India, OR any other evidence of an order for export from India.

II. ELIGIBILITY FOR PACKING CREDIT ADVANCE:
Packing Credit Loan is made available:
(a) to the exporter, when the exporter himself is the manufacturer, and
(b) to the supplier, when the exporter is a trader.
In the latter case, the credit may be arranged in the name of the exporter, but to ensure the end-utilisation of funds, actual disbursement may be made to the supplier directly by the bank, or disbursement may be made to the exporter, if the bank is satisfied that the exporter has to arrange the purchase of the goods from a number of sources.
Packing Credits may be sanctioned and disbursed directly to the supplier(s) of the exporter, when the latter, who received a Letter of Credit (L.C.) or firm order, places an order with the supplier.
Since 1976, the RBI has authorised that the banks concerned may apportion, between the export house and the supplier, the period of credit, subject to the limitation on the total credit period for packing credits, as laid down by the RBI.
Pre-shipment finance may also be authorised under a letter of credit, with what is called a "Red Clause", where advance is granted at the instance and, therefore, on the responsibility of the foreign bank establishing the Credit. Where the goods to be exported are to be purchased, if so desired, the banks open a letter of credit in favour of a supplier and this is called "Back to Back Letter of Credit Arrangement".

A CLARIFICATION:

Authorised exchange dealers have been empowered to supervise trade by intermediaries in India. Powers have also been delegated to them to open back-to-back letter of credit, without prior approval of RBI. But the authorised dealer has to obtain prior approval of RBI for international transfer of the Letter of Credit (LC). RBI gives permission for such transfer only after a scrutiny of every case.

III. PERMISSIBLE LIMIT:

Pre-shipment credit should not normally exceed the F.O.B. value of the goods to be exported or the domestic value of such goods, whichever is LESS. However, relaxations are made in case of goods covered under cash incentives of the Govt. of India and in the case of export of HPS groundnuts/de-oiled and de-fatted cakes.
IV. CONDITIONS OF PACKING CREDIT:

Packing Credits are governed by the Export Credit (Interest Subsidy) Scheme 1968 and the policy announced by the RBI relating to export credits. The terms and conditions of the packing credits are changed from time to time, in accordance with certain policy objectives of the RBI. These changes are notified to the Banks by the RBI. The main conditions of the credit relate to the period of the credit, evidence of export commitment, rate of interest and repayment.

V. PERIOD OF CREDIT:

Packing credit is generally granted for a specific short period and the specific period is announced by the RBI, from time to time, and it is calculated from the date of disbursement of the credit.

If the export house has placed an order with the supplier, the bank concerned may apportion, between the export house and the supplier, the period of the credit, subject to the limitation on the total credit period for packing credits, as laid down by the RBI. This is called sharing of a pre-shipment credit by the manufacturer exporters and the merchant exporters, at the stipulated rates of interest.

VI. EVIDENCE OF EXPORT COMMITMENT:

Normally, packing credits are given against lodgement of relative documentary letter of credit or firm order from overseas buyer. With a view to providing additional
incentives to the export-sector, the RBI has, on the basis of representations made by the exporters, relaxed the condition relating to lodgement of letters of credit or sale contract, in the case of as many as 17 categories of export items, listed in Appendix VI. In such cases, it is permitted to grant packing credits, provided the bank is satisfied that the credit is utilised for export purposes and the relative evidence of export commitment will be received by the bank, in due course.

VII. REPAYMENT:

(I) While the period for which pre-shipment credit can be granted, at concessive rate of interest, is prescribed by the RBI, exporters are required to keep the period MINIMUM, depending on circumstances, such as the time required for procuring, manufacturing or processing, packing and shipping the relative goods.

(II) Packing Credits are required to be liquidated from the proceeds of the relative shipping documents negotiated/purchased/collected by the bank or advance received from overseas buyer. In case these proceeds are inadequate to liquidate the credit, the payments, under export assistance schemes, from the Govt. can also be used to set off the balance amount of the credit. In the latter case, packing credits are granted taking into account the F.O.B. value of the export, plus the eligible cash assistance.

(III) This condition has also been suitably relaxed by the RBI. For example, if, for any reason, an exporter, who has
availed of pre-shipment credit, is confronted with the cancellation of export order and is, consequently, unable to adjust the credit against relative export proceeds, such outstandings are allowed to be wiped off, by export bills, drawn on other importers, either in the same country or in any other country, provided the relative bills are in respect of the very goods, for which credit was originally granted.

(IV) For a proper control over the grant and settlement of pre-shipment credit granted to exporters, it is necessary for the banks, under the scheme, to maintain separate accounts in respect of each packing credit granted to an exporter.

However, in the case of certain commodities, which are meant for export, as for instance - carpets, diamonds, coffee, tea, tobacco, cashew-nuts, marine products as also items produced in Free Trade Zones and by 100 percent Export Oriented Units (listed in Appendix VI), banks have been permitted to maintain packing credit, on a "running account" basis.

In terms of this facility, lending bankers may adjust the proceeds of the earliest export bill, against the earliest debit in the pre-shipment account.

VIII. IMPORTANT NORMS/CONDITIONS CONSIDERED BY BANKS IN GRANTING PRE-SHIPMENT ADVANCES:

(I) Exporters should hold exporter's Code number, allotted by the RBI and must not be in caution list of RBI or ECBC. Indirect exporters or sub-suppliers will not have the code number and as such, this stipulation is not applicable in their case.
(II) For the banks, the integrity of the borrower and viability of the business are most important factors. In other aspects such as debt/equity ratio, security, margin, etc., the bank adopts a flexible attitude. However, there can be no compromise in respect of viability of the proposal and integrity of the borrower.

(III) Exporters should be able to satisfy their bankers about their capacity to execute the orders, within the stipulated delivery schedules.

(IV) The quantum of finance asked should commensurate with the export turn-over.

(V) Banks would need to be satisfied about the reputation and standing of the foreign banks, which have opened the letters of credit.

(VI) If goods are not covered by irrevocable letters of credit, the status of the overseas buyers will need to be enquired about.

(VII) Availability of ECGC Guarantee cover or, where applicable, guarantee cover of Deposit Insurance and Credit Guarantee Corporation (DICGC).

(VIII) Whether Export Trade Control and Exchange Control Regulations, in force, have been complied with. Also, whether the importer has complied with Exchange Control Regulations in his country.

(ix) If goods to be exported involve imports of materials/components, whether appropriate arrangements have been made for such imports.
In working out the need-based requirements of the exporter, the banks keep in view the past performance, orders on hand and expected, the liquid surplus available, etc.

SECURITY:

Packing Credit advances are normally granted on secured basis, against pledge/hypothecation of the stocks or against a third party guarantee, depending upon the circumstances and the credit rating of the exporter. Nevertheless, sometimes clean packing credit advances have to be granted. Many advances are clean, at their initial stage—when goods are not yet acquired. Once the goods are acquired and are in the custody of the exporter, banks usually convert the clean advance into hypothecation. This involves the execution of a simple set of documents.

TERMS AND CONDITIONS:

The terms and conditions of the credit facilities granted are advised, by a detailed letter, by banks, to the exporter. This should be carefully perused and noted by the exporter in order that the relative terms and conditions are met in full.

GUARANTEE:

Banks sometimes obtain collateral security by way of third party guarantee/equitable mortgage of immovable property. They, however, insist on all packing credits covered under ECBC Guarantee or under DICGC Guarantee cover. The latter option is available to SSI units and eligible small business units.
3.3 ADVISING/CONFIRMING EXPORT LETTERS OF CREDIT:

I. DEFINITION AND PURPOSE:

A precise definition of letter of credit, the interpretation of the various procedures to be followed, the rights and obligations of the parties to L/C, etc., are given in the International Chamber of Commerce (ICC), Uniform Customs and Practice for Documentary Credits (UCPDC), Publication No. 400 (1983 revision).

ARTICLE 2:

"For the purpose of these articles, the expression "documentary credit(s)" and "stand-by letter(s) of credit" used herein mean any arrangement, however named or described, whereby a bank (the issuing bank), acting at the request on the instructions of a customer (the applicant for the credit),

(i) is to make payment to the order of a third party (the beneficiary), or is to pay or accept bills of exchange (drafts) drawn by the beneficiary, or

(ii) authorises another bank to effect such payment or to pay, accept, negotiate such bills of exchange (drafts), against stipulated documents, provided that the terms and conditions of the credit are complied with".

This definition, while drawing attention to the fact that a credit is a "conditional undertaking", an undertaking of payment, conditional upon the observance of stated requirements, emphasises the practical aspect of the letter of credit.
In other words, a letter of credit is a written undertaking issued by the buyer's bank, to pay a certain sum of money, within a stipulated period, against a specified set of documents. The basic document in this case is the Letter of Credit.

The letter of credit is a separate and distinct contract from the underlying sale contract, and the bank is not responsible for the fulfilment of the terms of the sale contract. The essential and basic provisions of the sale contract must be incorporated in the letter of credit. In addition, the amount of credit, its expiry date, the tenor of the draft to be drawn, party on whom the draft should be drawn, the documents to be presented, brief description of the goods, etc, must be precisely stated in the letter of credit.

The provisions relating to irrevocable credits (which are most commonly used and accepted) and confirmed credits (if and when the advising bank adds its own confirmation) are laid down in Article 10 (Uniform Customs and Practice of Documentary Credits-1983 Revision - International Chamber of Commerce, Publication No.400), which are given in Appendix VII.

ADVANTAGES OF A BANKER'S DOCUMENTARY CREDIT:

The major advantages of a banker's documentary credit accrue to the seller or the exporter, which are as follows:

(i) The exporter is conferred with the right to draw bill(s) of exchange against shipment(s) made by him, and since such Bill(s) of exchange is/are drawn under a documentary credit opened by a banker, he comes into possession of an assurance of the opening banker and, in the case of a
confirmed credit, also of the confirming banker, that his bill(s) of exchange will be duly honoured. The exporter will be in a position to negotiate such bill(s) of exchange readily, easily and at fine rates.

(ii) Possession of a banker's documentary credit tends to eliminate for the seller or the exporter, the risk of exchange control regulations in the country of the importer, preventing or regulating payment to the former by the time it becomes due.

(iii) The seller or the exporter may obtain another advantage from the banker's documentary credit, opened in his favour; it may enable him to obtain a loan for manufacture or procurement of the goods he has contracted to sell. The exporter's bank may be more ready to advance him the funds because of the recognition that the letter of credit assures the ultimate availability of funds for repayment of the loan.

The mechanism of a documentary letter of credit and the parties thereto are detailed in Table 3.2

In short, a banker's letter of credit gives the seller or the exporter:

(a) Credit Security: by eliminating the credit risk in the sale and the shipment of goods;

(b) Credit facility: by financing the sale when the goods are in transit; and

(c) Exchange security: by assuring him that the required Rupees are available to him, under the credit, from the time he receives the buyer's order and the time of shipment and the presentation of shipping documents.
Although the letter of credit is, thus, primarily of advantage to the seller or the exporter, it has some definite advantages to the buyer or the importer also.

**TABLE 3.2**

**PARTIES TO A DOCUMENTARY LETTER OF CREDIT**

( FLOW CHART )

First, Exporter and Importer conclude sale/purchase contract; then-

- Importer applies in writing, to the issuing Bank, to issue L/C
- Issuing Bank issues L/C and sends to Advising/Confirming/Negotiating/Forwarding Bank.
- Advising Bank advises L/C to the exporter, with or without adding its confirmation
- Exporter submits documents to the negotiating Bank
- Negotiating Bank negotiates the documents and makes payment to the exporter
- Negotiating Bank simultaneously forwards documents to the issuing Bank
- Issuing bank makes payment to the negotiating Bank, instructs paying/Reimbursing Bank to pay or reimburse the negotiating bank, who pays/reimburses negotiating Bank
- Issuing Bank presents documents to the Importer
- Importer makes payment against documents to the Issuing Bank.

*****

**COMMON TYPES OF L/Cs:**

1. Revocable Credit
2. Irrevocable Credit
3. Confirmed Irrevocable Credit
4. Red Clause Letter of Credit
5. Back to Back Letter of Credit
6. Transferable Letter of Credit
II. INTERNATIONAL COMMERCIAL TERMS (INCOTERMS):

Every foreign trade transaction is the result of a sale (or purchase) contract between the seller and the buyer. The contract need not necessarily be a formal legally executed contract, but it can even be represented by a series of correspondence or offer and acceptance. In the case of capital goods, machineries, etc., contracts may be drawn up by legal experts to take care of the complex technicalities. Similarly, in some trades, there may be standard contracts drawn by the trade associations, but in the case of a large majority of trade transactions, the buyer and seller, through correspondence or formal offer and bid, agree to trade certain specified goods, at specified prices and other terms mutually agreed upon. But all contracts, irrespective of their form, must incorporate the specifications of the product, the price, place of delivery, mode of transport, and as to who will bear the costs of transport, insurance, etc. But misunderstandings can occur if the terms used in the contract are understood and interpreted differently by different parties. The chances of such misunderstanding are there, due to the differences in the customs, practices and laws in different countries. Of course, the parties to a contract of sale have the right to decide how exactly the functions, costs, risks, etc., should be distributed between themselves. However, in order to facilitate clear understanding of the division of the functions, costs and risks between the parties and to save the parties the trouble
to detail out all the terms and conditions, the International Chamber of Commerce (ICC) has defined the rights and responsibilities of the parties, under alternative sale terms. These are called the INCO-TERMS (International commercial terms). The definitions of the trade terms developed by the ICC and used in a particular contract can have legal applicability only if an explicit reference (e.g. C.I.F. Inco terms, F.O.B. Inco terms etc.) is made to the sale terms in the sale contract. In order to standardise the reference to INCO -TERMS , the "three letter symbol" is adopted. There are -12- standard Inco-terms, defining the rights and responsibilities of the parties to the contract. As an illustration, the rights and responsibilities of the parties to the contract, under CIF term (which is widely used) are detailed in Appendix VIII.

III. Export Letters of Credit are issued by foreign Banks, at the instance of importers abroad, in favour of Indian exporters. Such letters of credit may be sent by the issuing bank directly to the beneficiary in India or routed through an Indian bank, with whom the issuing bank has correspondent relationship. The letters of credit may be sent by airmail or by short cable/full cable, followed by airmail confirmation.

IV. RESPONSIBILITY OF THE BANK IN INDIA :

The local bank in India may be called upon by the issuing bank to:
(i) hand over the credit (hand on). The "hand-on" L/cs are addressed to the beneficiary and the bank in India acts only as an intermediary;
(ii) advise the credit;
(iii) confirm the credit

V. CREDIT STANDING OF THE ISSUING BANK:
The credit status of the issuing bank is of great importance to the local bank, when it agrees to confirm or advise the credit. First, it is to be checked whether the issuing bank is a correspondent bank; if so, whether any L/C Confirmation Limit has been fixed for it. In the case of correspondent banks of good credit standing, usually the policy of all Indian banks is to add their confirmation to L/Cs, issued by those correspondents, without any limit. However, L/C confirmation limits are fixed in respect of some foreign banks. In any case, the sanction of the manager/appropriate authority is required, before confirmation of the bank is added to an L/c. On no account, confirmation of the bank should be added in respect of L/C issued by unknown banks and bank with which correspondent relationships are not established.
Revocable L/Cs are NOT confirmed, as per the regulations of FEDAI.
VI. CABLE LETTER OF CREDIT:

1. The bank is required to verify, in the first instance, whether the cable message is authenticated by a check signal. In case it is not authenticated, it should be made very clear to the beneficiary that the message received is not an authenticated one.

2. The cable L/C must contain minimum details like beneficiary’s name, address, amount, validity period, merchandise covered, etc. If any substantive information is omitted, it should be obtained immediately from the issuing bank.

3. The cable L/C must be scrutinised to see whether it contains any clauses which violate the Exchange Control Regulations and the Rules of the Foreign Exchange Dealers’ Association of India (FEDAI).

4. If the cable is in order on the above counts, the exact cable message should be conveyed to the beneficiary, in the prescribed format of the bank. Coded cable messages are required to be decoded, before passing on the message to the beneficiary.

5. All cable L/C advices are required to be recorded in the L/C Advising Register, which is maintained correspondent bankwise.

6. If the beneficiary of the cable L/C is not residing at the same centre, as the bank (branch) advising the L/C, the message would be transmitted by telegram to the branch
concerned for advising him immediately. The cost of the
telegram can be recovered from the issuing bank or the
beneficiary, depending upon the terms of the credit.

7. If a cable received states "details to follow" (or words of
similar effect), such a cable is not an operative
instrument. When the cable L/C does not contain words to
this effect, then it is deemed to constitute the operative
L/C. In such cases, the issuing bank is not required to
send the airmail copy of the L/C. However, the cable L/C
is invariably followed by an airmail confirmation of the
cable.

Where the cable L/C indicates that it is not an operative
instrument, it will be followed by an airmail copy of the
L/C, which is the operative L/C. If it is not received,
within a reasonable time, the issuing bank should be
reminded. Airmail copy of the L/C established by cable,
should be forwarded to the beneficiary, with a covering
letter, in the bank's format. When the issuing bank
intends Airmail copy of the L/C to be operative credit
instrument, it should be advised with a notation to the
effect that the "cable advice dated..., forms an integral
part of the credit and it must be attached with it, when
presenting documents under the credit".

VII. AIRMAIL LETTER OF CREDIT:

1. Firstly, it should be ascertained whether the relevant
credit was opened by cable. If so, it would be made clear
to the beneficiary that credit will be available to him,
provided no negotiation has taken place on the strength of the cable advice. In such a case, it is considered desirable for the bank to put a rubber stamp on the mail L/C, to indicate that a cable advice has been issued.

2. The signature(s) appearing on the airmail L/C would be required to be verified by the bank, with the authenticated signatures supplied by the issuing bank. If the signature does not tally or it is not included in the Authorised List of Specimen Signatures, the issuing bank would be immediately asked to confirm the signature. It is customary to advise the L/C to the beneficiary in the meantime, with the reservation that the signature, appearing on the L/C, is in the course of confirmation/verification.

3. The terms and conditions of credit would be required to be carefully scrutinised by the bank, to ensure that the L/C contains no clause, which are not in conformity with the Exchange Control Regulations of R.B.I. or the Foreign Exchange Dealers' Association rules in force.

4. The L/C can be advised CONFIRMED by the bank in three ways:

(a) incorporate the L/C issued by the foreign bank in the format of the bank and impress the rubber stamp of confirmation, if confirmation is requested, and send the L/C on to the beneficiary. In this case, the original L/C will be retained with the bank.
(b) send the original to the beneficiary. Add confirmation of the bank by impressing the rubber stamp on the original L/C. In this case, the original L/C will remain in the custody of the beneficiary and the bank keeps only a record of the details of the L/C, in the "L/C Register".

(c) If confirmation of the bank is not requested by the issuing bank, it is required to be made clear, in the forwarding letter or by impressing, at the end of the original L/C, with the rubber stamp that the bank is only ADVISING the credit, without any engagement on the part of the bank, and that it is not confirming the credit.

6. All L/Cs advised, confirmed or "hand-on" credits are required to be reported by the bank, to the RBI, in the prescribed form, on a monthly basis.

VIII. AMENDMENTS:
If the credit is amended, the particulars of amendment and the date on which the amendment is effective would be required to be recorded by the bank, in the L/C Register, in the corresponding column against the credit. The amendment would be required to be notified to the beneficiary, under cover of a letter. Copies of the amendments and copies of the forwarding letter would be kept in the respective files.

IX. UNIFORM CUSTOMS AND PRACTICE: (UCPDC):
Under Rule 10 of the Foreign Exchange Dealers' Association of India, every advice of a letter of credit issued,
advised or confirmed to which the Uniform Customs and Practice of Documentary Credits (1983 Revision) applies, addressed to the beneficiary or acknowledged to the issuing bank must contain a notation to the effect that the credit is subject to the Uniform Customs and Practice for Documentary Credits. All countries, other than East European countries and China, subscribe to UCPDC. (If this notation is not incorporated in an L/C, legally that L/C can not be considered as the one governed by the UCPDC).

In the case of "hand-on" credits, this notation should be included only in the covering letter, addressed to the beneficiary, and in the covering letter addressed to the issuing bank or branch. In "hand-on" credits, the bank just passes on the original L/C, which is addressed to the beneficiary, under a covering letter and copy to the issuing bank. Therefore, the notation is not to be incorporated in the original credit instrument.

Advices to beneficiaries on letters of credit, issued by banks in countries which do not subscribe to the UCPDC, should indicate that the letter of credit is not subject to the UCPDC (1983 Revision), unless the issuing bank has authorised the advising bank to the contrary.

X. NOTATION REGARDING DEDUCTION OF COMMISSION:

If the letter of credit stipulates deduction of agent’s commission from the amount of the bill, excessing 5 percent, a rubber stamp, requesting the beneficiary of the L/C to obtain the RBI’s approval – before effecting shipment, would be required to be put on the L/C by the bank.
XI. TRANSFERABLE LETTER OF CREDIT:

When the original beneficiary requests the bank to effect transfer in full or in part to a second beneficiary, the following requirements have to be complied with:

1. The L/C should indicate that it is a transferable credit.

2. A request for transfer should be obtained from the original beneficiary, in writing, and the signature must be attested by his banker, if the beneficiary is a customer of another bank. The following notation is usually affixed on L/C while effecting the transfer:

   "At the request of the first beneficiary and as per the terms of the establishment, this letter of credit stands transferred in full (or for.....), in the name of ...............(name of the beneficiary) on the same terms and conditions".

3. When transfers are effected in part, it should be verified that the L/C permits part shipment.

3.4 NEGOTIATION/PURCHASE OF BILLS UNDER LETTERS OF CREDIT:

I. PUBLICATION 400 (1983 REVISION) OF INTERNATIONAL CHAMBER OF COMMERCE:

All banks in India have adopted the Uniform Customs and Practice for Documentary Credits (1983 Revision), International Chamber of Commerce - Publication No. 400 (1983 Revision). Therefore, banks in India would negotiate
only EXPORT DOCUMENTS under L/Cs, which contain notations to the effect that they are subject to UCPDC, unless the country of the bank or the bank, which issues the L/C, has not adopted the UCPDC.

II. SCRUTINY OF DOCUMENTS:

(A) Generally, the following documents would be required to be submitted by the EXPORTER, for negotiation/purchase to his bank. The documents should be complete, correct and as required in terms of the L/C. The bank is expected to scrutinise them properly to ensure the settlement of its claim by the reimbursing/issuing bank:

1. Letter of credit - with amendments, if any
2. Bills of Exchange (Draft)
3. Invoice
4. Transport documents' (Bill of lading/Airway bill/Post Parcel Receipt)
5. Insurance policy
6. Certificate of Origin
7. Consular Invoice/Custums Invoice
8. Other documents/Special instructions, if any

(B) INITIAL RAPID SCRUTINY:

When the export documents, under L/C, are presented to the Bank, it is desirable that the bank undertakes a rapid check of the documents, in the presence of the messenger of the exporter. This will ensure that all
the relevant documents, in as many copies as specified in the L/C, along with original cable L/C/Airmail copy of L/C, etc., are submitted and that they are duly SIGNED, DATED AND STAMPED. If any discrepancies are detected, the documents can be returned immediately, through the messenger. This will avoid delay in resubmitting the documents, duly completed.

(C) DETAILED SCRUTINY OF DOCUMENTS:
When documents are presented to the bank for negotiation under L/C, they should be scrutinised carefully, taking into account all the terms and conditions of the L/C. All the documents tendered should be in STRICT CONFORMITY with the L/C terms. It is important to note here that the L/C issuing bank undertakes to honour its commitment only if the beneficiary submits the stipulated documents. A slightest deviation in the documents, from those specified in the L/C, can give an excuse to the issuing bank to refuse the reimbursement of the payment that might have been already made by the negotiating bank.

(i) LETTER OF CREDIT:
(A) CABLE AND AIRMAIL CONFIRMATION:
In the case of cable L/C, both the cable and its airmail confirmation, amendments - if any, must be presented together for negotiation. Under no circumstances should the documents be negotiated, if only the cable L/C or its airmail confirmation is presented, except when the cable L/C itself is the operative instrument. If either one of
them is lost or missing, the documents should be accepted only for collection of the proceeds from abroad, unless an authorisation to pay is obtained from the issuing bank. When cable L/C is the operative instrument, documents can be negotiated on the strength of the cable L/C.

(B) AUTHENTICITY OF THE LETTER OF CREDIT:

When the L/C is confirmed or advised or forwarded through the bank, its authenticity would have been verified - at the time of confirming/advising, etc. of the credit. On the other hand, if the L/C has been advised through another bank in India, its authenticity can be established from the rubber stamp of the advising bank, which generally testifies to the signatures on the L/C. In case of doubt about the authenticity of the L/C, the advising bank must be approached for attestation of the signatures on the L/C.

The credit would also be required to be examined to ascertain whether it is revocable or irrevocable. If a revocable credit is not advised by the bank, it is preferable not to negotiate documents drawn thereunder, as it will be quite difficult to ascertain whether the notice of revocation has already been issued by the opening bank. Bills under revocable credits can, however, be purchased under FBP limits sanctioned to the exporter.
(C) RESTRICTED LETTER OF CREDIT:
It is also required to be ascertained whether the L/C is restricted to some other bank. If the L/C is restricted to another bank for negotiation -
(i) documents should be presented to that bank for negotiation, or
(ii) get an endorsement from the bank, to which it is restricted, permitting negotiation, or
(iii) get an amendment to the L/C, by the issuing bank, de-restricting the L/C. (The third alternative may prove difficult, if the negotiation of the documents has to be done, within a short period).

(D) SCRUTINY OF OTHER DOCUMENTS WITH LETTER OF CREDIT TERMS:
Every clause in the L/C would be carefully examined and the other documents would be scrutinised by the bank, to ensure that they comply with the L/C terms. A check-list for detailed scrutiny of various documents is given in Appendix IX.

III. NEGOTIATION OF DOCUMENTS WITH DISCREPANCIES:
An illustrative list of the discrepancies generally found in documents is given in Appendix X. All discrepancies would be considered deviation from the terms and conditions of the L/C and issuing bank may refuse documents even if the discrepancies are not materially significant. Unless the issuing bank waives these discrepancies, they would be treated as discrepancies.
Wherever possible, the beneficiary would be asked to rectify the discrepancies, before the bank negotiates the documents. When invoice value exceeds the credit amount, the discrepancy may be rectified as under:

The beneficiary (exporter) may be requested to draw two drafts, one for the credit amount and the second for the excess amount. The clean draft may be purchased or sent for collection, depending upon the drawer’s standing. The payment under L/C must be made, in this case, under reserve. If it is not possible to rectify the discrepancies, the negotiating bank has following three alternatives open:

1. pay under an indemnity bond, signed by the beneficiary or beneficiary’s banker; or

2. pay under reserve through the beneficiary’s banker, when the documents for negotiation are received through another bank; or

3. obtain authority from the L/C issuing bank to negotiate the documents with the discrepancies, which, in effect, means that the issuing bank waives the discrepancy or amends the L/C suitably.

(Only if the issuing bank authorises negotiation, the documents would be negotiated, otherwise they would be sent for collection—in which case, the bank will take all reasonable care to protect the interests of the exporter customers)
IV. LINKING PACKING CREDIT AND FOREIGN BILLS PURCHASE FACILITIES

When the bank negotiates/purchases bills, under letters of credit, from the exporter customer, this becomes a post-shipment advance, which is given, at concessive rate of interest (subject to certain conditions), upto the date on which the bill is actually paid by the buyer. The proceeds of the bills negotiated are utilised for settlement of packing credit advance, if given to the exporter.

Generally, limits for Packing Credit and Foreign Bills Purchase (FBP) /Foreign Usance Bills Purchase (FUBP) are considered together.

3.5 NEGOTIATION/PURCHASE OF BILLS WITHOUT LETTERS OF CREDIT:

I. The Bank sanctions regular limit for purchase/discount of export bills, i.e. non credit bills (without L/C) to customers after careful scrutiny of:

(1) the credit-worthiness of the customers,
(2) business experience and integrity of the drawers and
drawees of the bills.

In certain exceptional cases, and that too for customers of undoubted credit worthiness and for bills involving small amount, purchase/discount facilities for bills, on an ad-hoc or casual basis, are considered by the bank.

Since the ECGC has now dispensed with assignment of policy in favour of banks, it is required to be ensured that ECGC buyer-wise limit is available on the drawee and the shipment
concerned actually comes within the buyer-wise limit fixed by the ECGC; i.e. the exporter should obtain the Contracts/Shipments(Comprehensive)Risks policy of ECGC, and further, it is important from the Bank's view point to ascertain whether forward contract has been booked or not. In case of bills drawn under letters of credit, there is no need for the negotiating bank to consider the factors other than whether or not the documents are in order, because the issuing bank has undertaken to honour the documents, drawn as per the L/C terms and conditions. In case of non-credit bills, such an undertaking of the issuing bank is not available to the negotiating bank, hence the need to consider the above factors carefully.

II. SCRUTINY OF EXPORT DOCUMENTS:

The second step requires proper scrutiny of the various documents, on the lines suggested in the check-list given in Appendix XI.

III. EXCHANGE CONTROL REQUIREMENTS:

The relative export documents would also be scrutinised to ensure that:

1. the currency in which payment is being effected is permissible, under the Exchange Control Regulations in India.
2. the credit period extended is in accordance with the credit period permitted by the Exchange Control Regulations in India.
3. deductions from the invoice such as commission, discount, etc., are in accordance with the rules of the Exchange Control Regulations of India, otherwise the special permission of the RBI is obtained.

IV. DRAWER'S (EXPORTER CUSTOMER'S) INSTRUCTIONS:

While negotiating export documents under a letter of credit, the bank has clear instructions in the form of terms and conditions of the letter of credit. No such guidance is available in the case of export documents without letters of credit. In this case, since the bank acts on behalf of the drawer of the bill and as his agent, clear instructions must be obtained from the drawer of the bill regarding the course of action, which the bank should take with regard to all important issues relating to the negotiation of the bill. In particular, the instructions should cover the following points:

1. Delivery of documents against payment or acceptance.
2. Instructions to protest, in case of dishonour of bill by non-payment or non-acceptance.
3. Notices of dishonour by airmail or by cable, to protect the interests of the exporter as well as the bank.
4. Collection charges and interest: In order to avoid misunderstanding and delay in payment at the foreign end, it must be made very clear by the exporter/drawer whether the sale contract stipulates that interest and
collection charges are to be paid by the overseas buyer or are to be absorbed by the exporter.

5. DRAWEE IN CASE OF NEED: He may arrange to pay or accept the bill by the drawee as the case may be, but unless authorised clearly by the drawer, the "case of need" is not authorised to allow extension of time or partial payment or storage or insurance of the goods, etc. The extent of authority of the "case of need" must, therefore, be clearly indicated by the drawer.

6. PROTECTION OF THE GOODS, in case of non-payment or non-acceptance.

7. THE PRESENTATION OF BILLS: immediately on receipt of the documents or on arrival of the steamer.

8. MODE OF PAYMENT: Drawer’s specific instructions regarding the disposal of the proceeds.

If the draft and the relative documents are not in order and major discrepancies are revealed, the bank would either return them to the drawer to rectify the discrepancies or the bank would send the documents abroad for collection. The bank would immediately inform of its decision to the drawer.

3.6 ADVANCES AGAINST BILLS SENT ON COLLECTION BASIS:

I. BILLS FOR COLLECTION:

The bank would collect the proceeds of the export bills from abroad, on behalf of the drawer/exporter when:
(a) they are not drawn under L/C
(b) the customer has not been sanctioned an "FUBP/FBP limit by the bank.
(c) documents accompanying bills under L/C are found to be either inadequate or major discrepancies are found.
(d) the exporter does not wish to negotiate the documents due to one reason or the other. When documents drawn under L/C are restricted for negotiation to another bank, the documents received from customers are forwarded to the bank, to whom the L/C is restricted.

II. NEED FOR SCRUTINY OF DOCUMENTS:

Though the bank does not incur any direct and immediate financial liability in respect of export bills for collection (unless the bank has made a packing credit advance), yet the relative documents must be scrutinised carefully, because of the following reasons:

(a) the foreign correspondent bank, to whom the bill is sent for collection, will expect handling charges (including commission, postage, etc) and any other expenses on this count from the forwarding bank (drawer’s bank), if the bill is dishonoured by the drawee (i.e. the importer); and

(b) if the drawee dishonours the bill, the bank may have to arrange for the clearance, bonding, etc., of the merchandise. This involves expenditure at the foreign port of destination of the goods. It is important to note here that the bank accepts bills for collection only from good customers.
III. SCRUTINY of export documents, other documents, exchange control requirements angle and drawer’s instructions required to be obtained - are the same as given in Para 3.5 hereinabove.

IV. FOLLOW-UP PROCEDURE:

If the payment advice is not received within a reasonable time, the fate of the unpaid bills must be ascertained from the collecting bank abroad. The expected time for payment advice depends on the nature of the bill, i.e. whether it is Demand (sight) or Usance Bill and the period of usance. For this, the copy of the covering schedule marked "Tracer" is sent to the collecting bank to enquire about the bill. Information received from the collecting bank about the progress of collection must be conveyed to the drawer of the bill.

In case of usance bills, after receipt of the due-date advice, the due date is advised to the drawer, in the bank’s prescribed format.

3.7 POST-SHIPMENT CREDIT:

I. Post-shipment credit means any loan or advance granted or any other credit provided by a bank to an exporter of goods from India, from the date of extending the credit after shipment of the goods to the date of realisation of the sale proceeds. The post-shipment credit may be extended either by purchase of foreign bills, discounting of foreign usance bills or making advances against foreign bills for collection (vide para 3.4, 3.5 and 3.6 hereinabove and 3.7(IV) hereinbelow).
II. DEMAND BILLS:

In case of demand bills, exporters are charged concessive rate of interest, as prescribed by the RBI, for the normal transit period, which means the maximum period for transit of documents stipulated in respect of each country, by the FEDAI.

FEDAI has recently instructed the banks to take "normal transit period" for negotiation of documents as 10 days, if the documents are despatched through couriers, at the request of customers.

III. USANCE BILLS:

The concessive rate of interest, as prescribed by the RBI, is applicable to post-shipment credit extended by way of discounting of foreign usance bills, upto a period of 180 days. The period of 180 days is inclusive of the normal transit period stipulated by the FEDAI, usance of the export bill and the grace period, wherever applicable.

IV. ADVANCES AGAINST BILLS FOR COLLECTION:

Banks also sometimes grant advances against bills sent on collection basis. This may be resorted to when:

(a) the accommodation available under the Foreign Bills Purchased Limit is exhausted, or

(b) some export bills, drawn under L/C, have discrepancies of not-too-serious nature.

The banks, obviously, advance only a certain percentage of the total outstanding bill amount. In other words, such advances are granted subject to a suitable margin on the
amount of bills for collection and interest, at concessive rate, is collected from the exporter:
(a) only on the amount of actual advance and not on the full face value;
(b) for the period they are not overdue, subject to a maximum of 180 days.
The advance will be liquidated out of the realisation proceeds of the bills.
The banks, however, prefer to finance credit bills, by extending bills purchase limits, since the risk of exchange fluctuation can be reduced by carrying out appropriate cover operations.

V. (I) ADVANTAGES OF A COLLECTION BILL:

Bills on collection basis, on the other hand, offer certain distinct advantages/disadvantages to the exporter and the importer as well.

TO THE EXPORTER:

(A) Collection as a means of settlement is cheaper than under a documentary letter of credit.

(B) The exporter retains a measure of control over his goods, if the terms of payment are "documents against payment".

(c) The documents are handled by the banking system, wherein the exporter enjoys a degree of protection. A reputable collecting bank will, on behalf of the drawer, press for payment and often succeeds in obtaining it, from the drawee, who wishes to defer it.
Finance may be arranged against collections by ordinary bank loan/overdraft; advances against collection; or negotiations of bills/documents.

TO THE IMPORTER:

A) Collections are a much more convenient and cheaper method for an importer than opening a letter of credit.
B) He may arrange to defer acceptance or payment until the arrival of the goods, subject, of course, to the instructions in the collection order.
C) Deferred credit terms may be obtained by way of usance bills of exchange.
D) If the collection is "documents against acceptance", possession of the goods can be obtained before effecting payment.
E) Direct finance may be obtained to settle the debt due to overseas exporter, by obtaining overdraft/loan against the security of goods.

(ii) DISADVANTAGES OF A COLLECTION BILL:

TO THE EXPORTER:

A) The method of settlement is inferior to that of payment in advance or a documentary letter of credit.
B) If the buyer refuses to take up the goods, the exporter will be faced with the problem either of finding an alternative buyer or of re-shipping the goods to another destination. The process will involve a lot of additional costs.
C) The exporter will not be paid till funds are received by the remitting bank.
TO THE IMPORTER:

(a) With a "documents against payment" collection, there is no opportunity to inspect the goods before payment. In addition, payment might have to be made before the arrival of goods.

(b) By accepting a bill of exchange in a "documents against acceptance" collection, the importer incurs two separate liabilities: first on a commercial contract and secondly, on the bill of exchange.

(c) In some countries, if a bill of exchange is protested, it may ruin the reputation of the importer and may be considered an act of bankruptcy.

VI. EXPORTERS' CREDITS OR ACCEPTANCE CREDITS:

Quite often, the exporter applies for and the banker, if satisfied about the exporter's standing, that of the usual drawees of his bills, and the margin of security which he proposes, may be prepared to extend "acceptance credit" facilities, against the outstanding bills sent for collection. In case the credit line is accorded, the exporter would draw usance bills of exchange on the banker; the banker accepts them - if in order and within the limits and if the total security with the banker, represented by what are known as "lien bills", covers the banker's acceptances with an adequate margin, then the exporter can discount these accommodation bills in the market readily, easily and at competitive rates of discount. The exporter would be required to execute a letter of hypothecation charging to the banker,
all the outstanding documentary collections and another letter of undertaking by which he would undertake to put the banker in funds, either through the proceeds of the lien bills under collection or otherwise, to meet the maturing bills. Requests for acceptance credit facility would be considered favourably when:

(i) the exporter asks for the facility only up to a reasonable limit of the outstanding amount of "lien bills",
(ii) the exporter is engaged in a type of trade, which gives rise to "lien bills", to be spread over various parties and countries; thus, affording the banker a "partywise" and "geographical" spread of risk,
(iii) the risk will still be less, if the exporter has arranged an ECBC policy,
(iv) the "lien bills" do not involve any exchange control regulations in the countries whom they are drawn upon.

Acceptance credit facilities may take the form of a "bill for bill" arrangement.

The advantage to the bank as well as the customer is that, ordinarily, the lien bills are "self-liquidating assets", which provide their own reservoir to meet the drain of maturing liabilities, created against them.

3.8 CONSIGNMENT EXPORTS:

I. Goods exported on consignment basis are sent overseas to an agent of the exporter. The actual sale takes place only at the foreign destination. Among the goods exported on consignment basis are tea, mineral ores and bristles.
II. SCRUTINY OF DOCUMENTS:

In the case of consignment exports, the usual documents, except the draft, are presented to the bank by the exporter. It is necessary to scrutinise the documents to ensure that:

1. all the relevant shipping documents, required by the consignee to take delivery of the goods, are presented;
2. the documents are in order.

III. DRAWER'S INSTRUCTIONS IN FORWARDING SCHEDULE:

On scrutiny, if the documents are found to be in order, the bank prepares the forwarding schedule. The procedure for the presentation and disposal of the forwarding schedule for consignment exports is the same as that of bills for collection (as given in Para 3.6 III). The instructions given by the exporter would be required to be carefully followed and they should be incorporated in the forwarding schedule.

IV. TRUST RECEIPT FROM CONSIGNEE:

According to the Exchange Control Manual, the collecting bank/correspondent bank should be instructed to deliver the documents, representing the goods shipped on consignment basis, to the consignee, only against a Trust Receipt/Undertaking to deliver the proceeds, by a specified date, within the stipulated period, from the realisation of sale proceeds from abroad. This period should not exceed 90/180 days, from the date of shipment. Therefore, clear instructions must be given to the collecting bank to obtain the required Trust Receipt/Undertaking.
V. EXCHANGE CONTROL - CONSIGNMENT EXPORTS:

Under this arrangement, the overseas buyer will sell the goods and remit the sale proceeds with account of sales, indicating the deductions made on account of brokerage, storage charges, transport charges, etc. Documentary evidence for payment towards storage charges and other charges incurred by the overseas buyer should also accompany the account of sales. In view of this, when export is made on consignment basis, there may be a possibility of the exporter not realising the entire value declared at the time of shipment.

Export of certain commodities like cardamoms, marine products, etc., on consignment basis, is banned by the Export Trade Control authorities.

VI. ADVANCE AGAINST GOODS SENT ON CONSIGNMENT BASIS:

Need for this type of credit arises where goods are exported on consignment basis, at the risk of the exporter, for sale and eventual remittance of sale proceeds by the agent/consignee. A suitable limit, for this purpose, will have to be extended by the bank. The overseas branch/ correspondent of the bank is instructed to deliver the documents against Trust Receipt.

VII. OVERDUE EXPORT BILLS—NEW PROCEDURE:

With a view to inculcating a measure of discipline and efficiency in the banks as also the exporter community, the RBI has introduced the new procedure regarding the handling of overdue export bills, with effect from
1.1.1984, which, it is hoped, would lead to a quicker realisation of the export bills. It was observed that, many a time, bills remained outstanding for long, after the transit period or the due-date, for some reason or the other.

It has now been stipulated that if the bill is not paid within 30 days, after its due date, and the relative credit advice is not received by the concerned bank, within this period, the foreign currency amount of the bill is to be converted into rupees, at the prevailing TT Selling Rate, and the Liability will be held in rupees, in the books of the negotiating bank. Thereafter, the bill will be treated on collection basis. Then, when the credit advice is finally received, the foreign currency amount of the bill will be purchased afresh by the bank, at the TT Buying Rate. The difference between the rupee amount arrived at - on the 30th day after due date, on the basis of TT Selling Rate and the rupee amount arrived at - on the date of final payment at the TT Buying Rate, will be debited/ credited to the exporter. Barring exceptional cases, the exporter is bound to suffer a loss, on account of the inherent difference between the TT Selling and TT Buying Rates of any currency. Again, interest would be recovered on the overdue export bill, after the due date, upto the date of realisation (the present rate of interest is 15.5 percent p.a.). In case bills are unpaid, interest would be charged at penal rates.
The intention is that both-banks and exporters should gear up their follow-up machinery. Insofar as exporters are concerned, the following points are important:

(a) In case of non-credit bills, particular care should be exercised by exporters in identifying their customers (buyers).

(b) Exporters should ensure that the tenor of the bills corresponds with the trade policies. For instance, demand bills are sometimes drawn, when goods are shipped by sea, and drawees usually do not retire bills, unless the goods reach the port of destination. This adds to the interest burden of the exporter.

(c) Exporters should give up the practice of drawing bills on friends/relatives overseas, with the implicit understanding that the latter may retire the bills, whenever convenient.

(d) Exporters should remain in constant touch with the drawees after the goods are shipped, so that the bills get paid by the due date or at the latest, within 30 days after the due date.

(e) Exporters should remain in touch with their bankers, so that telex/cable reminders are sent out to the concerned correspondent banks.

VIII. DOCUMENTS FOR NEGOTIATION/COLLECTION:

CHECK LIST FOR EXPORTERS (EXPORT CONTROLS):

(I) It is obligatory that all shipping documents must be routed only through an Authorised Dealer. Authorised
Dealers will not, therefore, accept GR etc. forms, where shipping documents have already been sent by exporters direct to overseas buyers. If shipping documents are proposed to be disposed of in any other manner for any reason, the exporters should obtain prior approval of Exchange Control. The RBI may allow despatch of shipping documents direct to the consignees by authorised dealers/exporters, provided advance remittance for the full value of the consignment has already been received or an irrevocable letter of credit covering the full export value has been received.

(2) Exporters sending the goods by air, run the risk of losing value on the goods, if the airway bill is drawn in favour of overseas buyers. Exporters may, therefore, ensure that the airway bill is drawn in favour of overseas bank for self (exporters). Generally, when goods are exported by air freight, certain precautions should be taken by the exporter. If an advance payment had been received by him from the buyer or an irrevocable letter of credit has been opened in his favour by the buyer, there is no risk in his consigning the goods directly to the buyer. In all other cases, sending the goods direct to the buyer will involve risks of non-acceptance/non-payment of the bill, by the importer, after clearing the goods from airline company. The safe course for the exporter will be to route the bills, etc., through his bank, to
correspondent bank abroad, with instructions to arrange for issue of delivery order, in favour of buyer/consignee, either against payment or against acceptance of relative bill of exchange.

(3) Exporters are precluded from accepting payments directly from their overseas buyers. However, the exporters of semi precious stones, non-gold jewellery (without gold content or the gold content of which does not exceed 10%), handicrafts and artware will be permitted, by the RBI, on application to accept demand drafts, banker’s cheques and pay-orders, directly from their overseas buyers, upto a value of US $10,000 or its equivalent.

(4) In case of usance bills, they should not be drawn for payments 6 months after sight, without specific approval from the RBI, since this will result in realisation of export proceeds beyond the prescribed period.

(5) The amount for which the bill is drawn should tally with the amount declared on GR forms, etc. Invoices should also be raised for the same amount as declared on GR forms, etc... If any reduction, other than towards trade discount is shown, RBI’s approval should be obtained.

For allowing trade discount from the invoice value, exporters should have declared the same on GR etc. forms, at the time of shipment and the Customs Authorities should have accepted the same.
In case of exports by post parcel against declaration on PP forms, post offices will not undertake scrutiny of trade discount deduction, if any, declared on the forms. Authorised dealers are permitted to accept declaration towards trade discount in such cases, subject to a maximum of 25% in the case of books, periodicals, drugs and medicines and 5% in every other case.

(6) If the export has been made on FOB basis, where the freight is to the account of overseas buyers, and the exporters have paid the freight amount, the freight amount should be included in the invoice for recovery from overseas buyers.

If the export is made to the Bilateral Account countries by vessels belonging to the External Account Group countries, and the exporter is paying the freight, under FOB contract, the freight amount should be recovered from the overseas buyers, in permitted currencies.

(7) RBI's prior approval should be obtained for receiving advance remittances against the exports to be made, if payment of interest is allowed.

(8) In cases of bills involving part drawings, i.e., where undrawn balances will be paid by overseas buyers, only after arrival of goods and inspection, the exporters should furnish an undertaking that he will, within the prescribed period, surrender the balance proceeds of shipment.
(9) After the documents are negotiated, if the exporters want to transfer the goods to some other buyers, the authorised dealers can themselves (i.e. without RBI's approval) draw fresh bill of exchange on the new buyers, provided the terms of export contracts (i.e. outright or consignment sale) are the same, no reduction in invoice value is involved and the export proceeds will be realised, within the prescribed period. In all other cases, RBI’s approval should be obtained.

If the exporters lose the duplicate copy of the form, after they are approved by the Customs, fresh set of forms can be used, provided the printed number on the first set of forms is scored off, and the number of the lost form is prominently written on the duplicate copy of the fresh set. The original of fresh set can be destroyed.

(10) Shipping documents should be presented to the authorised dealer, by the exporters, within 21 days from the date of shipment. If presented after 21 days, instructions have to be issued to authorised dealers, to accept the documents, if explanation, given by exporters, with supporting documentary evidence for the delay, in submission of documents is satisfactory.

(11) In case of re-import of export goods, due to rejection by overseas buyers, exporters should arrange for the same, on freight to pay in rupees, in India. If freight has to be paid in free foreign exchange, prior approval of the RBI should be obtained.
(12) Prior approval of the RBI should be obtained if, after a bill has been negotiated or sent for collection, the amount of the bill is desired to be reduced for any reason. However, with a view to avoiding delays and consequent difficulties to the exporters, the Exchange Control Dept., has permitted the exporters enjoying the Blanket Permit facility to agree, on their own (i.e. without the prior approval of the RBI), to a reduction in invoice value of export shipments upto 10% of the invoice value or Rs 10000, whichever is less, subject to compliance with floor price requirements, wherever applicable, provided the reduction is insisted upon by the overseas buyer as a pre-condition for acceptance of shipping documents or clearance of goods. The facility will not be available in respect of export of ready-made garments, leather goods or any other commodities, the export of which is subject to allocation of quotas by the Govt. of India.

IX. EXTENSION OF TIME:

If the export proceeds are not realised by the shippers, within the prescribed period, they should apply for extension of time to the RBI, through the bankers, who handled the bills, with the following documents/particulars:

(1) Extension application, in duplicate, in the prescribed form (Form ETX), countersigned by the authorised dealer.
(2) Correspondence, in original, exchanged with the overseas buyers, indicating the difficulty experienced by overseas buyers in making payment.

(3) When applications are submitted for extension beyond one year from the date of shipment, the following additional particulars should be furnished:
(a) value of exports during the past three years,
(b) amount realised, and
(c) amount outstanding.

The statement giving above particulars should be authenticated by the authorised dealer, who handled the relative shipping documents.

If the RBI is satisfied about the genuineness of the difficulties of exporters in realising the export proceeds, further extension of time will be granted for a period of three months, at a time.

X. NON-REALISATION OF EXPORT PROCEEDS:

If the export proceeds are not realised within the prescribed period and the exporters are not satisfactorily accounting for non-realisation, their names will be placed on the "Exporters' Caution List", by the RBI, under advice to the exporter concerned, their bankers, customs authorities and the Enforcement Directorate, and other authorised dealers.

Name and address of the company/firm and its directors/partners/proprietor, as also the names of other firms (and their proprietors/partners, as the case may be)
with which the proprietor or a partner of the caution-listed firm is associated as a partner or the proprietor will also be included in the caution-list.
By caution-listing, a firm/company is not prevented from making further exports, but further exports will be allowed, by the RBI, only when advance remittance/irrevocable letter of credit is received from overseas buyers. Such exporters should obtain specific approval of the RBI, on the export forms, each time, before submitting them to the Customs authorities.
If the exporters concerned realise the outstanding export proceeds for which they have been caution-listed, their names will be removed from the Exporters' Caution List, by the RBI, under advice to all, to whom caution-listing advice was sent earlier.

3.9 ADVANCES AGAINST UNDRAWN BALANCES:
In certain lines of export, it is the trade practice that bills are not to be drawn for the full invoice value of the goods, but to leave a small portion undrawn, for payment after adjustment due to difference in rates, weight, quality, etc., to be ascertained after approval and inspection of the goods.
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 5% of the value of export and against an undertaking obtained from the exporter that he will, within
6 months from the date of shipment of goods, surrender balance proceeds of the shipment.
Against the specific prior approval from the RBI, the percentage of undrawn balance can be enhanced by the exporter and finance can be made available accordingly at higher tune.
Here also, the banks are granting advances against undrawn balances, at concessive rate of interest, till the remittance from abroad, subject to a maximum of 90 days. Since the actual amount to be realised, out of the undrawn balance, may be less than the undrawn balance, the banks would usually keep some margin on such advances.

3.10 ADVANCES AGAINST RETENTION MONEY:
Banks are also granting advances against retention money, which is payable within one year from the date of shipment, at concessive rate of interest, upto 90 days. If such advances extend beyond one year, they are treated as deferred payment advances, which are also eligible for concessive rate of interest.

3.11 FINANCING CLAIMS UNDER EXPORT INCENTIVES:
I. FINANCE AGAINST EXPORT INCENTIVES:
In addition to packing credit and post-shipment credits, banks also provide finance to exporters against export incentives. Export incentives are provided under the Export Promotion Scheme, by the Govt. of India and other agencies to compensate exporters of certain products for the loss incurred in export business. The loss arises because the
domestic cost of production and the prices of certain export items are much higher than their international prices. From the point of view of the bank financing, the relevant incentives are:

(a) cash subsidy (Cash Compensatory Support - CCS),
(b) refund of excise and customs duty (Duty Drawback), and
(c) reimbursement of the differential between indigenous and international prices of certain raw materials, particularly iron and steel.

The items of exports which are eligible for these incentives and the quantum of the assistance are notified by the government departments and agencies concerned. Normally, claims are required to be registered with the dept./agency concerned immediately on shipment of the relative goods. The frequency with which the claims are to be registered, viz., monthly, quarterly, etc. are also notified by the authority concerned. As the procedure for verification of the claims and their payment take considerable time, a significant portion of the working capital of the exporters get blocked, in the form of claims for incentives. In order to alleviate the problems, arising from such blocking of funds, the RBI has permitted the commercial banks to make advances against claims of export incentives to eligible exporters. Such advances are also covered by the ceiling rate of interest applicable for export credits. Advances against export incentives are eligible for subsidy, under the Export Credit (Interest Subsidy) Scheme, for a maximum period of 90 days.
II. FINANCING CLAIMS AGAINST EXPORT INCENTIVES AT PRE-SHIPMENT/POST-SHIPMENT STAGE:

Advances against claims of export incentives are provided by the banks either at the pre-shipment or at the post-shipment stage. In the case of parties with high credit-worthiness and proven export capabilities, advances against eligible export incentives may be granted by the banks, at the pre-shipment stage. However, in the majority of cases, advances against incentives are given upon shipment of the relative goods.

III. SANCTION OF LIMIT FOR THIS FACILITY:

Just as in the case of packing credit and bills purchase/discount, it is necessary for the bank, to sanction a limit for financing customers against export incentives. Generally, limit for advances against claims for export incentives, which is of the nature of unsecured advance, is considered alongwith the limits for Packing Credit and FUPP/FPB. The same considerations, viz., credit worthiness of the party, export order on hand, past export performance, nature of the goods handled, etc., are relevant factors, while fixing the limit for advance against claims for export incentives, as for the other limits. In addition, considerations such as whether the goods are covered by export incentives and the rate of incentives are also relevant.

Sometimes, limits for advance against claims for export incentives are sanctioned separately. Even then, the procedure for processing the application and the
considerations those weigh with the bank, in fixing the limit, are similar to the one followed for sanction of Packing Credit Limits.

IV. TERMS AND CONDITIONS:

1. The limit is usually secured by hypothecation/pledge, etc., of the relative goods, book receivables, etc., in favour of the bank, unless it is waived in the sanction of the limit.

2. All the relative shipping documents should be negotiated through the bank, not necessarily the same bank, which is advancing against incentives.

3. All the relative claims for incentives should be routed through the bank for registering the claims with the relevant department/agencies.

4. Under the notification of the Govt. of India, all claims are now payable directly to the bank; a declaration by the exporter authorising payment to the bank would be required to be registered with the department/agency concerned.

5. The maximum amount that is normally advanced to finance a transaction at the pre-shipment stage, including advances against claims for export incentives and packing credit is 150 per cent of the FOB value of exports or FOB value plus cash assistance and duty drawback, etc., whichever is lower, subject to the limit not exceeding 100 per cent of the domestic cost of the goods being exported. This means that the bank will not finance the profit of the exporter.
Generally, a margin is required to be maintained on the outstanding claims of the party. The extent of the margin varies, depending on the credit-worthiness of the party and the nature of goods involved.

6. Advances are given only up to the maximum period, as per the RBI Schemes in this respect; currently it is 90 days and the interest applicable is 8.65 percent per annum.

7. The advance is required to be settled out of the payment of incentives. If the advance is not settled out of the payment of incentives, interest is chargeable at the normal rate.

8. If the advance is given at the pre-shipment stage, periodical statements of stocks of goods, materials, etc., are required to be submitted to the bank and such stocks should be made available for inspection by the bank's officers.

9. Advances can be covered by the ECGC Export Promotion Finance Guarantee or Export Finance Guarantee.

V. FOLLOW UP OF THE ADVANCE AGAINST EXPORT INCENTIVES:

The follow-up procedure of advance against incentives is similar to that of packing credit advance. A close watch would be required to be kept to ensure that the relative shipping documents are submitted by the party to the bank and also the relevant claims are routed through the bank, to the Government department/agency concerned.

If the payment is not received on the due date, the bank would enquire of the party to ascertain the reason. Then -
(i) if the explanation of the party is deemed to be genuine, the bank would approach the RBI, for permission to continue the loan, beyond the prescribed period, at the concessional rate of interest. Similar application for approval would also be made to ECBC, or

(ii) On the other hand, if the bank is not satisfied with the explanation of the party for not repaying the advance on due date, the bank may decide to charge normal rate of interest.

3.12 REGISTRATION OF EXPORT CONTRACTS:

I. PURPOSE:

As an incentive to the registered exporters and for promoting export trade, the Govt. of India has introduced a scheme for providing import replenishments to the registered exporters. Under the scheme, the exporters are given import replenishment licences for certain specified commodities, as permissible under the rules. These licences are issued only after the export has taken place and the proceeds have been realised in a manner, prescribed by the Exchange Control Authority. But the quantum and the nature of commodities eligible to be imported, under such licences, vary from time to time. In order to give the benefits under the scheme, a degree of stability, a Scheme of registration of export contracts involving deliveries after a period of six months and above has been introduced by the Import Licensing Authorities. The basic features of the Scheme of Registration are the following:
1. Only firm contracts involving deliveries extending over a period of 6 months and above are eligible for registration.

2. The prescribed minimum period of deliveries under the contract will be waived in respect of public tender contracts of foreign governments, and public utilities.

3. During the period of the registered contract, if the percentage of import replenishments is reduced, the higher percentage as applicable on the date of firm contract will be allowed. If the percentage of import replenishment is increased during the period of the contract, the exporters will be entitled for the higher percentage, etc.

II. ROLE OF BANKS:

1. The registered exporter must register the contract with the authorised dealer (bank), through whom the relative shipping documents will be negotiated within 45 days, from the date of the contract. For registration purpose, the original contract along with two copies thereof and an abstract of the contract will have to be submitted by the exporter, to the bank. The abstract should indicate the date of the contract and should be duly signed by an authorised representative of the exporter, affixing the rubber stamp of the exporter.

2. The bank (authorised dealer) will register the contract in its register and make the required endorsement on the original and both the copies of the contract, signed by an authorised official.
The original contract will be returned to the exporter. One copy of the contract, duly endorsed as above, will be forwarded to the Licensing Authorities, within whose jurisdiction the exporter is situated. The second copy of the contract will be retained by the bank for its own record.

3. If there are any variations/modifications in the delivery schedule of the export, the exporter should produce documentary evidence to that effect, to the bank, who will intimate such variations/modifications to the licensing authorities, giving reference to its earlier communication on the contract.

4. In the event of cancellation of such registered contracts, the exporter should request the bank for cancellation of the registration of the contract, within 15 days of such cancellation. The bank will send intimation of such cancellation to the licensing authorities.

3.13 LOAN AGAINST DUTY DRAWBACK:

I. RATIONALE OF THE SCHEME:

In cases where the product has a sizeable import content, for which high rates of import duty are chargeable, the exporter may require additional working capital to meet the cost of import duty. The import duty so charged would be refundable to the exporter, in the form of Duty Drawback, once the goods are shipped. Certain categories of items exported from India are entitled to the drawback of import duties paid on relative
raw materials, components, etc., used in the production of those goods. The rate of duty drawback for each item is laid down by the Chief Controller of Imports and Exports. The claims of the customers for duty drawback are payable by the Customs Authorities. Since the process of repayment takes a long time and the exporters remain out of funds in the meantime, the RBI introduced a Scheme, on behalf of the Govt. of India, in February 1976, known as "DUTY DRAWBACK CREDIT SCHEME 1976". Under this Scheme, customers are eligible to obtain, INTEREST FREE ADVANCES, from their banks, up to a period of 90 days either at the pre-shipment or post-shipment stage, irrespective of the country to which the exports are made. These are granted against the production of provisional entitlement orders, issued by the Customs Authority. On a selective basis, banks may stipulate a margin between the amount of duty drawback provisionally certified and the advance to be granted.

The banks, which make advances against provisional entitlement orders, are eligible to obtain REFINANCE, from the RBI, FREE OF INTEREST, for a period not exceeding 90 days, in respect of such advances.

The normal practice in the banks is that the branches, handling the export account of the customer, make the advance against the duty drawback entitlements and intimate the same to their Central Office, which claims the relative refinance from the RBI. The latter maintains accounts with the RBI, through which the refinance is obtained from the RBI.
The advance should be covered under the Export Production Finance Guarantee of the ECGC. In case of an SSI unit, the advance can also be covered under the guarantee scheme of the Deposit Insurance and Credit Guarantee Corporation.

II. REGISTRATION OF EXPORTERS:

The exporter is required to register himself with the bank for the purpose of obtaining advance against his duty drawback entitlements. The bank allots him a code number. The bank may also fix a regular limit for making advances against his duty drawback entitlements.

III. ENDORSEMENT OF THE ENTITLEMENT ORDERS FROM THE CUSTOMS AUTHORITY:

1. The exporter is required to endorse the shipping bill covering the goods in respect of which the drawback amount would be paid under this scheme, authorising his bank to receive the due amount, through the RBI.

2. The Customs Authority will scrutinise the amount of the drawback claim, on the basis of declared description of the goods and would make the required endorsement on the shipping bill.

IV. LODGEMENT OF CLAIM:

After shipment, the exporter is required to produce his copy of the shipping bill, which bears the custom’s endorsement, to his bank, for availing of the advance against his entitlement of drawback. At that time, the exporter should reduce the amount suitably, in case the goods actually shipped are short of the quantity declared on the shipping bill.
On scrutiny of the relative shipping bill, if the amount is admissible, the loan is paid to the exporter equivalent to the amount arrived at, after retaining a margin, as per the terms of sanction. (RBI has stipulated that this margin should not exceed 10 per cent).

V. INTEREST CHARGES:
The loan is INTEREST FREE for a period of 90 days, from the date of granting the loan. If payment is received after 90 days, from the 91st day until it is paid, normal rate of interest, applicable to export credit, is charged, as prescribed by the concerned bank. If the drawback claim is not passed by the Customs or delayed unduly for some reason or the other, and if the loan is repaid by the exporter by cash, normal interest would be charged from the date of the loan till it is paid. In other words, no interest is applicable for 90 days and also if the loan is adjusted from the drawback amount received from the customs, against the relative GR 1 form.

VI. The RBI has decided to allow banks to extend post-shipment export credit, against the International Price Reimbursement Scheme (IPRS) also, for a period upto 90 days, at the concessive rate on export credit at 8.65 percent p.a.

1. Economic Times 25.11.87 "Export Credit relaxed again"
3.14 EXPORT CREDIT INTEREST SUBSIDY:

I. An exporter may require financial assistance from his bank at pre-shipment stage and/or post-shipment stage. While extending such facilities, a bank is mainly governed, on one hand, by the terms and conditions of the Export Credit (Interest Subsidy) Scheme 1968 and the instructions issued thereunder by the RBI, from time to time, and on the other, by its own requirements.

II. EXPORT CREDIT (INTEREST SUBSIDY) SCHEME 1968:

The RBI, with the objective of increasing bank lending to export sector and to assist the export trade in general, has taken a number of measures. With a view to maintaining the cost of export credit at a reasonably low level, the RBI, prescribed in August 1967, ceiling on the rates of interest that could be charged by banks on export credit. The ceiling rates have been subsequently replaced by fixed rates of export credit, which are lower than the normal rate of interest charged for commercial advances. Commercial banks are not permitted to charge interest higher than the prescribed ceiling rates on credits granted to exporters. Moreover, no commission or other levies are normally chargeable on export credits, except out of pocket expenses, as authorised by the FEDAI, except the commission permissible in respect of rupee bills.

With a view to compensating the Banks, to some extent, on account of concessive export credit extended by them, the Export Credit (Interest Subsidy) Scheme was introduced in March, 1968.
Under the Scheme, the interest subsidy at a certain fixed percentage (which was until recently 3.0 percent, and since raised to 3.35/5.0 percent) is paid to banks in respect of all eligible export credit granted by them, at a rate of interest stipulated by the RBI. As already mentioned, this subsidy is not intended to compensate the banks fully; the banks are making sacrifices on their own, to promote exports. The subsidy is payable to banks on a quarterly basis.

A CLARIFICATION: Authorities have clarified that post-shipment credit will depend upon the tenor of the bill and that demand bill concessive credit is granted only for the normal transit period and the usance bill till notional due date. Exporters can draw a particular tenor of the bill to suit their requirements.

A suggestion that concessional rate of interest of 9.5 percent upto 180 days should be made applicable, irrespective of whether the documents are sent on DP or DA or 180 days sight basis requires a policy decision by the Government.

III. PERIODICAL RATIONALISATION OF INTEREST RATES:

There was a feeling that the period for which pre-shipment credit was available earlier, at concessional rates of interest was not adequate, either because of the longer production cycles of certain commodities or due to factors beyond the control of exporters, such as transport bottlenecks, power shortage, non-availability of shipping
space, etc. Also, the earlier structure of pre-shipment credit was characterised by a multiplicity of interest rates differentiated with reference to specified commodities, for varying periods. It was, therefore, considered desirable to rationalise this structure by prescribing uniform interest rates for all commodities, so that variation occurs only according to the period for which the credit is provided. As such, with a view to providing a fillip to exports, the rates of interest for pre-shipment credit, for all commodities, have been revised downwards with effect from 1.3.1986. This structure of interest rates has again been revised with effect from 1.8.1986 and again from 1.4.1987 (with partial subsequent modification from 1.3.1989), to ensure that majority of exporters will pay lower interest rates for longer periods than the one in force earlier.

According to the earlier revisions, the lending rate for the pre-shipment credit upto 180 days had been reduced to 9.5 percent; the rate of interest on pre-shipment credit, beyond 180 days and upto 270 days, had come down to 11.5 percent; further, the rate of interest on post-shipment credit upto 180 days had come down to 9.5 percent. Thus the rate of interest had been lowered by 2.5 percentage points, from 1.4.1987; and further lowered from 1.3.1989. Consequently the RBI had reduced the interest rate on export finance to Scheduled Commercial Banks from 10 percent to 9 percent, effective from 1.8.1986.
### TABLE 3.3
LATEST INTEREST RATE STRUCTURE ON EXPORT CREDIT.

<table>
<thead>
<tr>
<th>Rate of Interest percent per annum</th>
<th>1.3.87</th>
<th>1.3.89</th>
</tr>
</thead>
</table>

1. **Pre-Shipment Credit**:
   (a) (i) upto 180 days
   (ii) beyond 180 days, and in all, upto 270 days (with the prior approval of the RBI)
   (b) against cash incentives, etc. covered by ECGC guarantee - upto 90 days

2. **Post-shipment credit**:
   (i) Demand bills for transit period (as specified by FEDAI)
   (ii) Usance bills upto 180 days, comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable.
   (iii) Cash incentives, duty drawback etc. receivable from Govt. covered by ECGC guarantee (upto 90 days)
   (iv) Undrawn balances (upto 90 days)
   (v) against retention money (for supplies portion only payable within one year from the date of shipment (upto 90 days)

3. **Deferred Credit**:
   Deferred credit for period beyond one year

4. **Duty draw back credit scheme 1976**
   Free of of certified by the Customs Authorities Interest Interest
   Free Free

5. **Export credit not otherwise specified**
   14.0 to 14.0 to
   15.50 15.50

The new rate on export credit compares favourably with that prevailing in most developing countries. The RBI has clarified that the rate should not be considered too high; because any such judgement could be valid only if all the export support measures are considered as a package.

Table 3.3 details the latest interest rate structure on different types of export credit, effective from 1.4.1987 (and revised from 1.3.1989)

IV. Export credits covered by the Subsidy Scheme are:

(1) Packing Credits (Pre-shipment credits)
(2) Post - Shipment Credits
(3) Deferred Export Credits.

(1) PACKING CREDITS:

For the purpose of the interest subsidy, a packing credit means any loan or advance granted by a bank to an exporter for financing the purchase, processing or packing of goods, against an export letter of credit or a firm export order, or evidence of an export order, including cable order from the buyer. Pre-shipment advances in excess of the FOB value of the relative export contract also qualify for interest subsidy. Such advances mainly constitute financing against claims for export incentives.

A packing credit, to be eligible for interest subsidy, must comply with the following conditions:

(a) the relative letter of credit/export order is lodged with the bank;

(b) the period of credit does not exceed the period stipulated by the RBI;
(c) it is repaid by purchase/negotiation of the relative export documents or by means of remittance of proceeds from abroad. A part of such advances can also be repaid from the export incentives received by the exporter. It can also be repaid by advance granted against bills sent for collection, provided the export proceeds are received finally from abroad;

(d) the rate of interest does not exceed the ceiling rate(s) prescribed by the RBI;

(e) no service or other charges, except those permissible under FEDAI rules, are levied.

(2) POST SHIPMENT CREDITS:

For the purpose of interest subsidy, post-shipment credit means any loan or advance granted by a bank to an exporter, after shipment of the goods. Post-shipment credit also includes any loan or advance granted to an exporter against duty drawback (refund of excise or customs duty) or any cash incentives, at the post-shipment stage. A post shipment credit, to be eligible for interest subsidy, must comply with the following conditions:

(a) the period for the credit does not exceed the period specified for this purpose; currently it is;
   (i) 180 days inclusive of transit and grace period;
   (ii) Loans against incentives, upto 90 days.

(b) the credit is repaid by remittance of proceeds of exports from abroad or by payment of incentives;

(c) the rate of interest charged by the bank does not exceed the ceiling rate stipulated by the RBI;
(d) the bank does not levy any service or other charges, except those permissible under FEDAI rules.

(3) DEFERRED EXPORT CREDIT:

It is a post-shipment credit, with a maturity period of more than 180 days, granted to an exporter, who, in turn, has extended credit terms to his buyer abroad.

A deferred export credit is eligible for interest subsidy, under the following conditions:

(a) the relevant deferred payment terms have been already approved by the Exchange Control Dept, of the RBI.

(b) the credit is to be repaid by remittance proceeds from abroad;

(c) the rate of interest does not exceed the maximum stipulated by the RBI;

(d) the bank does not levy any service or other charges, except those permissible under FEDAI rules;

(e) the bank has not availed of the refinancing facility from the Exim Bank.

V. MAXIMUM PERIOD FOR WHICH SUBSIDY IS PAYABLE:

<table>
<thead>
<tr>
<th>Type of Credit</th>
<th>Maximum period upto which subsidy is payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Packing Credit</td>
<td>90 days in the case of general exports; additional 45 days, in the case of need, subject to RBI approval; 180 days in the case of approved engineering and overseas construction contracts; additional 90 days, in case of need, subject to RBI approval.</td>
</tr>
<tr>
<td>Advance against</td>
<td></td>
</tr>
<tr>
<td>export incentives</td>
<td></td>
</tr>
<tr>
<td>at the pre-shipment</td>
<td></td>
</tr>
<tr>
<td>stage</td>
<td>90 days</td>
</tr>
<tr>
<td>2. Post-shipment</td>
<td>180 days inclusive of transit and grace period</td>
</tr>
<tr>
<td>credit; (FSP/FUBP)</td>
<td></td>
</tr>
</tbody>
</table>
Type of Credit | Maximum Period upto which subsidy is payable
---|---
3. Advance against export incentives at the post-shipment stage: | 90 days
4. Deferred Credits: Full period of the credit as approved by Exchange Control Dept., of RBI (for the part or full amount on which refinance is not availed from the Exim Bank) | 
5. Exports on consignment basis: 90 days |

VI. REFUND OF EXCESS SUBSIDY:
The claims for interest subsidy are paid on a provisional basis. If any of the export credit is subsequently not extinguished in the approved manner, the subsidy claimed on it, is required to be refunded to the RBI, in the next quarter, when the application for the claim for that quarter is made.

3.15 GUARANTEES RELATED TO EXPORTS:
I. In the ordinary course of business, banks may be requested by their customers (importers or exporters) to support their trading transactions, by issuing guarantees to third parties. While doing so, banks undertake a contingent liability. With the increase in the volume of foreign trade of our country, the number and types of guarantees issued by banks are on the increase. The main types of guarantees issued by banks, relating to export business, are outlined hereunder:
II. DEFINITION OF CONTRACT OF GUARANTEE

A contract of guarantee is a contract to perform the promise or discharge the liability of a third person, in case of default.

BASIC PRINCIPLES:

Before issuing a guarantee on behalf of a customer, the bank keeps the following basic principles in mind:

1. Guarantees should be issued only for a bonafide purpose, which needs to be supported by the bank, in the interest of the customer.

2. The customer should be of undoubted integrity and also good for the amount for which the bank undertakes the guarantee liability. Hence, the bank would make a thorough appraisal of the credit-worthiness of the customer, taking into account his total financial position. Generally, guarantee limits are fixed by banks for each customer along with the limits for other facilities.

3. The guarantee should be for a limited amount and period.

4. A counter guarantee from the customer should invariably be obtained.

5. The charges for issuing the guarantees related to imports and exports are fixed by FEDAI. Appropriate charges must be collected from customers, in accordance with FEDAI rules.

6. Exchange Control Regulations, if applicable, must be strictly followed.

7. After the expiry of the guarantee, it should be recalled promptly and duly cancelled.
For the bank, guarantee transactions are contingent liabilities. If and when the bank is called upon to pay the guaranteed amount, when contingent liability crystallises and becomes an actual liability, the bank is required to pay, without demur, regardless of customer’s financial position. Therefore, issuing of guarantees is not a mere formality and all the principles outlined are required to be adhered to strictly.

III. PARTIES TO A BANK GUARANTEE:

There are three parties to any bank guarantee:
1. The "Principal Debtor", also called the "Obligor"—on whose behalf the bank guarantee is issued.
2. The "Surety", i.e. the bank issuing the guarantee; and
3. The "Creditor", who is the beneficiary under the guarantee, also called the "Obligee".

IV. ADVANTAGES OF A BANK GUARANTEE:

Bank guarantees offer distinct advantages to both—the beneficiary and the principal debtors, on whose behalf the guarantee is issued.

The beneficiary, by insisting on a bank guarantee, ensures that:

(a) the contract will be performed smoothly, and
(b) in case of failure to fulfil the contract, the obligor’s bank will pay him the guaranteed amount immediately, which can mitigate his consequent losses.

By requesting a bank to issue a guarantee, the principal debtor benefits in the following ways:

(a) the beneficiary takes a bank guarantee; in lieu of a cash deposit of a like amount, and
(b) by submitting a bank guarantee, the obligor need not block his funds as earnest money with the beneficiary. The impairment of his liquidity position is, thus, avoided.

V. GUARANTEES RELATED TO EXPORTS:

Exporters may approach banks for issuing the following types of guarantees, in connection with their export transactions:

(a) bid bonds,

(b) export performance guarantees, and

(c) advance payment guarantees.

(a) BID BONDS:

When world-wide tenders are invited by buyers, exporters in our country may offer to supply the goods covered by the tender. But the foreign buyer, at the initial stage itself, would like to ensure that the bidders (exporters) do not back out of the transaction, once their bid is accepted. To avoid this eventuality, the buyer may stipulate that each offer/bid should be accompanied by a bond, executed by a reputed bank, undertaking that should the exporter’s bid be accepted, the exporter will enter into a supply contract with the buyer, on the terms contained in the bid, failing which the bank binds itself to pay the buyer the bid-bond guarantee amount. If the exporter’s bid is not accepted by the buyer, the bid-bond guarantee automatically stands cancelled.
(B) EXPORT PERFORMANCE GUARANTEE:

Exporters are often granted import licences for raw materials, capital goods, etc., on their undertaking to export certain specified goods, of a given value, within a stipulated period. The licensing authorities may stipulate that such undertakings by the exporters should be supported by bank guarantees. The banks guarantee the due performance of the obligations by the exporters. In case an exporter fails to fulfil his obligation, the amount, under the relative guarantee, will be claimed by the licensing authorities from the bank. Similar guarantees, in support of exporter's undertaking, may be issued by banks in favour of Export Promotion Councils, Commodity Boards, the State Trading Corporation of India, the Minerals and Metals Trading Corp. of India or recognised Export Houses. Such guarantees are issued favouring foreign buyers or his local agent, guaranteeing the due performance of the contractual obligations by the exporter.

(C) ADVANCE PAYMENT GUARANTEE:

Sometimes a foreign buyer may be required to pay a certain percentage of the contract value as an advance to the exporter. If the exporter does not supply the goods, the foreign buyer stands to lose money paid in advance. As a safeguard against such losses, the buyer may insist on a guarantee by a reputed bank, undertaking to make good the amount of advance payment, in case of failure on the part of the exporter to supply the goods.
VI. ROLE OF EXPORT CREDIT GUARANTEE CORPORATION (ECGC):
To encourage banks to issue guarantees, the ECGC issues export performance guarantees in favour of banks, to cover the risks of banks, arising from the issue of guarantees connected with export trade. Such guarantees normally cover 75 per cent of the loss sustained by the banks. Risk coverage of 90 per cent can also be obtained in respect of certain guarantees. To obtain export performance guarantee cover from the ECGC, the banks are required to submit the proposal, in the prescribed form, along with the financial statements of the exporter and a copy of the relevant guarantee.

VII. REFUND OF PREMIUM BY ECGC:
As a measure of relief to exporters, who submit bids against international tenders, the ECGC allows a rebate of 75 percent on premium collected under its Export Performance Guarantees issued to banks, against unsuccessful bids. This refund of premium collected on bid-bonds is made, provided:
(a) banks apply for refunds within one month from the date of cancellation of bid bonds, and
(b) no claims have been lodged with the ECGC in the past, on behalf of the client concerned.

VIII. EXCHANGE CONTROL REGULATIONS:
Under the prevailing Exchange Control Regulations, banks are permitted to furnish bid-bonds, performance bonds and guarantees (including those in lieu of earnest money), in
favour of overseas buyers, without prior reference to the RBI, on account of Indian exporters, in all cases, other than exports of capital and engineering goods, under deferred payment agreements, turn-key projects, construction contracts and consultancy/technical service contracts, provided:

(a) they are satisfied with the bonafides of the applicant and

(b) the terms agreed between the exporter and foreign buyer are in accordance with the Exchange Control Regulations. However, even in the case of bid-bonds/tender guarantees and advance payment/performance guarantees, banks are permitted to furnish guarantees, where no assistance under Exim Bank Scheme/Working Group reference is involved. In such cases, banks should satisfy themselves that the exporter is in a position to fulfil his contractual obligations and terms of tender/contract. In all other cases of deferred payment export contracts and also turn-key projects, banks will not issue bid-bonds/tender guarantees or advance payment/performance, etc., guarantees, until after package approval has been secured from the Exim Bank. Banks are permitted to issue, on behalf of their customers and overseas branches and correspondents, in the usual course of business, guarantees relating to missing or defective documents, authenticity of signatures and other similar purposes.
I. All claims to foreign currency and payable abroad, whether in the form of bank deposits or bills of exchange, cheques, drafts, etc., can be considered foreign exchange. It also signifies means and methods by which the currency of one country is converted into the currency of another country and transferred to another country. Currency notes of a country, whose currency is freely convertible into foreign currencies, is only considered as foreign exchange, in the real sense of the term.

II. THE NEED:
Non-convertible national currencies are not generally acceptable in payment for goods and services from foreign countries. For example, payment in foreign currencies for Indian goods must be converted into Indian Rupees, before the exporter can use it for purchases within India. Hence, the need arises for converting one currency into another. The foreign exchange market is basically a system, provided by the banks, for facilitating conversions of one currency into another and effect transfer of money between countries.

More specifically, the need for foreign exchange is (to pay) for:
(a) trade in goods and services,
(b) capital transfers,
(c) transfer of interest on foreign capital or income from foreign investments,
(d) other transfers like payment for tourists, student grants, etc.

The transfer of funds between countries is effected by banks through credit instruments, such as Demand Drafts or Bank Drafts, Air Mail Transfers, Telegraphic (Cable) Transfers, Cheques and Bills of Exchange.

III. RATES OF EXCHANGE:

The rate at which the conversion of one currency into another is effected or the rate at which one currency is exchanged for another is known as the "Rate of Exchange". A rate of exchange is the price of one currency quoted in terms of another currency. The bank, as a trader in foreign exchange, is required to quote rates at which it is prepared to convert one currency into another, that is to buy or sell foreign currency against local currency or one foreign currency against another foreign currency.

In other words, Foreign Exchange Transactions involve exchange of currency of one country for that of another country. The conversion of one currency into another is necessitated by the movement of goods and services across national frontiers. The function of an efficient foreign exchange market is to facilitate matching of supplies and demands for various currencies, at the appropriate rate of conversion, i.e. exchange rate.
According to the Classical Purchasing Power Parity Theory, in the long run, rate of exchange between two currencies will tend to reflect their relative purchasing powers. In the short run, however, movement of exchange rates is determined by the supply and demand. In addition, the following factors also influence the movement:

(a) Tariffs, quotas and exchange restrictions,
(b) Long and Short term capital movements, and
(c) Expectations of currency hardening/weakening, due to political and economic factors.

IV. TYPES OF EXCHANGE RATES:

There are two main types of exchange rates quoted by a bank, in foreign exchange transactions:

(1) The Selling Rate:

The rate at which the bank sells a foreign currency against home currency or another foreign currency.

(2) The Buying Rate:

The rate at which the bank buys a foreign currency against home currency or another foreign currency. The margin between the buying and selling rates is called "spread", which constitutes the exchange profit for the bank in its foreign exchange transactions. Rates quoted can be classified as under:

(a) SPOT RATE: It is quoted for a foreign exchange transaction in which the currencies concerned change hands immediately. In India, "spot" means delivery on the same date; while in foreign countries, "spot" means delivery two days after the date of contract.
(b) FORWARD RATE: It is quoted for a foreign exchange transaction in which the delivery is to take place, at some future date.

Exchange rate quotations are expressed in two ways:

(a) Home Currency Quotations or Direct Rates, and
(b) Foreign Currency Quotations or Indirect Rates:

In India, the rates are quoted as Indirect Rates only, which means that the home currency is the standard (fixed) unit in an exchange rate quotation, whereas the units of foreign currency vary thereagainst. e.g. Rs.100 = pound 5.3520. The basic principle applied by a bank, while quoting rates of exchange in foreign exchange transactions, would be "Buy High, Sell Low", when quoting an indirect rate. In other words, a bank will quote a slightly higher rate as its buying rate and when it sells, it will give up a little less than the units of foreign currency it bought per Rs.100. The difference is its profit in the transaction. Foreign exchange is sold or purchased by the authorised dealers, at the rates, which allow them, some profit margin. The selling rate is so calculated that less units of foreign currency will be given to the customer against Rs.100; whereas the buying rate of the bank is such that more units of foreign currency will be taken from the customer per Rs.100 paid to him.

When the rate is referred to as "favourable" or "unfavourable", it is required to be ascertained whether the person is a buyer or a seller. High rates
are favourable to the buyer because he would get more units of foreign currency. Low rates are favourable to the seller as he would have to surrender fewer units to get local currency.

A cross rate is the price of one foreign currency in terms of another foreign currency and these rates are useful for arbitrage transactions, i.e. buying and selling of two currencies in two markets to take advantage of temporary discrepancy in the prices.

For expeditious transfer of funds, remittance is sent by telegraphic transfer. Since funds are paid, at both the centres, on the same day, there is no loss of interest. Therefore, TT rate is the "basic rate of exchange", for calculating rates of exchange applicable for other modes of remittances.

V. MERCHANT RATES FOR POUNDS STERLING:

The FEDAI, in consultation with the RBI, fixes the Pound Sterling Rates, quoted by authorised dealers for merchant transactions. The rates quoted by authorised dealers to their customers are known as merchant rates - either "spot", or "forward". In case of "forward" rates, the FEDAI fixes only buying rates (for various deliveries up to 9 months), but does not fix the rates for forward selling.

The authorised dealers are, at present, free to quote their own rates for all currencies other than Pound Sterling. The actual formulae used vary from bank to bank. Merchant Rate Quotation is derived from the "Base Rate", which, in turn, is based on on-going spot market rates for each currency. The
RBI has prescribed the maximum spread between spot TT Selling and Buying Rates. Ranges of exchange margins have also been prescribed, which have to be added to the bill buying rate and deducted from selling rate. Finer rates can be quoted by banks, by making adjustments in the spread and exchange margins, within the prescribed limits.

3.17 FORWARD EXCHANGE CONTRACTS:

It is interesting to note that rates of exchange are not only subject to daily fluctuations, but even during the course of the same day, the rates are not stable. Therefore, an exporter, who has entered into an export commitment, at a future date, is exposed to the risk of rate variation, which may be favourable to him or otherwise. Therefore, the exporters and the importers are always exposed to the risk of depreciation or appreciation of foreign currency.

The exchange risks can be eliminated, interalia, by one of the following ways:

(i) By invoicing the buyer in home currency of the exporter, or

(ii) By fixing a forward exchange contract.

The first alternative is available only if it is a sellers' market and mostly, the second alternative is resorted to.

In order to enable exporters and importers to cover against risks arising out of exchange rate changes, banks provide forward exchange cover facilities to merchants. Such cover is provided only for genuine trade
transactions. If a foreign sale or purchase contract is invoiced in a foreign currency, the merchants are exposed to exchange risks because there is a time gap between the date of signing the contract and the date of payment. In the intervening period, the exchange rate can change against the merchant. To cover against the risks of such changes, merchants can enter into forward contracts with their banks. The purpose of the forward exchange contract is to fix the exchange rate in advance for the amount of the foreign currency specified in the contract for a stipulated period.

Thus, a forward exchange transaction is one, where foreign exchanges are bought or sold, for delivery at a definite future date, at a fixed exchange-rate, determined on the date of the forward contract. In a forward transaction the currency will change hands, between the bank and the customer, only on the maturity date of the contract, but the rate of exchange will be fixed on the date of the contract. Forward-contracts are entered into for standard periods, viz., one month, two months, three months and so on. The last date of the forward contract or extended contract must not fall beyond three months in the case of exports to Pakistan and Afghanistan, and six months in other cases, from the date of shipment or expected date of shipment. This is because the export proceeds have to be realised from these exports, within the stipulated period specified above.
There are two types of contracts: In the case of a fixed contract, the due date of delivery of foreign exchange falls on a particular date; while in an option contract, customers do not have option to deal, but only an option as to the date of eventual performance of the contract, i.e. the due date falls on any date during the specified period. Under the Exchange Controls in India, option is permitted only in the last month of a forward contract.

Forward rates are expressed as margins over the spot rate and are either at premium or discount. The forward rates are based on spot rate and may be expressed in any one of the following ways:

(i) "Par" means the forward rate is at the same level as the spot rate;
(ii) When forward exchanges are costlier than spot rate, the currency is said to be at "Premium",
(iii) When forward exchanges are cheaper than spot rate, forward currency is at a "discount".

While quoting forward rates, "Premium" is deducted from the relevant spot rate.

II. IMPORTANT POINTS:

(i) Forward contract can be deemed as effective, only after obtaining the forward rate, at which the contract is booked, from the position maintaining office. Non-position maintaining branches have to obtain the same from the concerned branch, viz., the position maintaining branch.
(2) Forward Exchange can be provided only in the currency in which the relative transaction is invoiced.
(3) Forward exchange contract can be entered into only if the relative foreign exchange can be delivered to the bank entering into the contract, if it is a purchase contract. Thus, in case of a letter of credit restricted to a bank, the relative forward buying contract can be provided only by the bank to which the letter of credit is restricted for negotiation, for obvious reasons: because the exporter will not be able to deliver the relative foreign exchange to any other bank.

(4) Forward contracts can be entered into only in respect of firm sales, for which documentary evidence must be produced by the customer. In respect of sales on consignment basis, forward exchange cover can be provided only after the shipment has been effected and only to the extent of the bill drawn in respect of the relative shipment.

(5) All forward exchange contracts are firm contracts and must be fulfilled. Thus, if a forward exchange contract is not fulfilled on the due date, it must be extended or cancelled, at the written request of the customer.

(6) Prior to 1st January, 1984, interest for the transit period, in the case of demand bills, and transit and usance periods in the case of usance bills, was loaded in the bill purchase rate. However, with effect from this date, the interest factor is de-linked from the exchange rate and the interest is now collected from the exporter separately, at the time of purchasing/negotiating the bill in rupees.
III. FORWARD PURCHASE CONTRACTS

For booking forward contracts for exporters, the customer must apply to the bank, in the bank's prescribed application form, and must produce one of the following evidences for verification as to the genuineness of the transaction:

(a) Firm contract/order indicating specifications of the goods, price, expected date of shipment, etc.

(b) Irrevocable letter of credit, indicating the commodity, etc., received in favour of the exporter, after submission of declaration to his banker that he has not entered into any other forward exchange contract, in respect of the relative shipment.

(c) Correspondence such as cable/telex messages, etc., between the buyer and the exporter showing firm intention to effect the sale. In such cases, the contract of sale subsequently entered into, between the buyer and the seller, should be submitted to the bank later, within a month.

(d) Export documents already sent for collection or any other documentary evidence, which will satisfy the bank, regarding the specifications of the goods, price, shipment date, etc. The exporter will be able to book forward purchase contract, not exceeding the value of the bill, presented by him for negotiation/collection. Forward exchange cover is effective only when the position maintaining office confirms that the exchange has been booked. For forward cover involving large
sums, say above Rs.10000/- requests should be forwarded to the position maintaining office, by telex or telegram, so that the customer is able to secure the cover, as soon as possible.

The period, for which forward cover is booked, should not exceed the specified period for the currency concerned. Normally, date of delivery under the contract should not go beyond six months from the date of shipment, except in case of exports on deferred payment terms or where the Reserve Bank has relaxed the time limit for realisation of the proceeds of the export. Thus, for a shipment exported on 1st July, a contract of 8 months can be entered into on 1st May, but not in April or earlier.

In the case of exports of specified categories of goods, forward cover for longer period can be given, under forward cover for deferred credits, provided the approval of the Reserve Bank of India has already been obtained by the exporter, to extend deferred payment terms to the overseas buyer.

Forward cover is provided by the State Bank of India, upon request, for shipment to Sudan, since the foreign exchange proceeds will be accrued to the SBI.

Trade with East European Countries, which are covered by Rupee Payment Agreements, can not be covered for forward exchange contracts as no foreign currency is involved in such transactions.
The branch has to follow up and contact the customer, at least a week in advance of the due date, to ascertain whether the contract is likely to be extended or deliveries will be effected on the due date. Deliveries under forward contracts can be effected only in respect of the specific transaction for which the forward contract was originally booked. For earlier deliveries, in case of contracts in Pounds Sterling, there is no problem since the forward margin is the same for each month; whereas in case of contracts in other currencies, the bank will re-assess the risk and quote the rate again.

At the time of negotiation of the shipping documents, relating to export transaction, covered by a forward-contract, the branch concerned has to intimate the position maintaining branch, the relevant particulars viz., the date of purchase, details of the forward contract, balance outstanding, etc. On realisation of the export bill, the branch would debit the position maintaining branch, at the rate specified for the purpose, by the latter.

IV. UTILISATION OF FORWARD CONTRACTS:
Forward purchase contracts being "firm" contracts, exporters are expected to deliver the currency, under such contracts, without fail, by the respective maturity dates, for fulfilment of the same transactions
in respect of which they were originally fixed. Exporters are, however, allowed to deliver exchange for value of part shipment/s, in part utilisation of forward contracts. They are also allowed to utilise a forward purchase contract, against shipment of goods of a quality/grade, etc., different from that mentioned in the original order, subject to the production of a suitable documentary evidence that foreign buyer has agreed to accept those goods under the same order. Exporters can book a single forward contract against several bills sent through the bank for collection. If the contract is for round sum representing part of the total value of the bills, without identifying the amount covered in each bill, exporter should submit a list of all the bills. They must bear in mind that uncovered balance of listed bills will not be eligible for cover, at any subsequent stage. Full value of bills will be first adjusted against the contract of realisation.
Forward contract booked in respect of one export-commitment should not be even partially utilised against any other foreign exchange commitments or risks. In the event of a balance being left unutilised, out of a forward contract, after completion of the original transaction, such balance must be cancelled. Reserve Bank, however, will be prepared to allow substitution of one commercial contract for another, under the following circumstances:
(i) Exporter is unable to execute an export order, against a forward purchase contract booked earlier, due to the reasons beyond his control.

(ii) The un-fulfilled export order and the substituted export orders are for the same commodities and also from the same overseas buyer.

(iii) The facility of substitution of export order for fulfilment of a particular forward contract has not been availed of by the exporter previously.

Exporter has to submit an application in the prescribed form (FCC-3), duly completed and forward it, through the bank, with whom he has booked the original forward contract. In case permission is granted by the Reserve Bank, exporter and the bank have to scrupulously abide by the conditions, if any, imposed by the Reserve Bank of India, in their approval.

V. EXTENSION OF FORWARD CONTRACTS:

The extension of a forward contract is done at the discretion of the contracting bank. When the contract is extended, the bank will re-assess the cost of extension and quote an appropriate rate. This is because, the bank itself has covered its position and, therefore, may have to give delivery of the foreign exchange on the due date. Thus, it may cost the bank to re-adjust its own currency position. Depending upon its own costs, the bank will quote a rate for extension, which may be the same or different as the rate quoted by it in the original forward contract.
The branch receiving the application must ensure that the relative letter of credit or sale order is also extended, as it is required to ensure that the total period, by postponing the delivery, does not exceed 12 months from the date of original contract.

VI. CANCELLATION OF FORWARD CONTRACTS:

Once a forward exchange contract is booked, it must be fulfilled. However, if a customer is unable to give delivery of the foreign exchange, the bank will cancel the amount of forward contract or unutilised portion thereof, he will have to pay the cancellation charges— which include the difference between the bank's spot (TT) selling rate and the forward buying rate, adjusted for the interest element, if applicable. The branch must also ascertain, from the customer, the reasons for the cancellation and intimate the same, with the details of the forward contract, involving cancellation exceeding equivalent of US $5000 to the Reserve Bank of India.

It is interesting to note that cancellation of a forward purchase contract entered into with a customer, against a firm export order, can not be justified on the ground that the letter of credit opened by the buyer is restricted to another authorised dealer. In all such cases, exporters have to arrange, through their bankers, for obtaining payments in foreign currency, from the bank to whom letter of credit is restricted, so that delivery of foreign exchange may be made, under the contract.
VII. FORWARD EXCHANGE CONTRACTS:

A CLARIFICATION:

Individual exporters may approach the RBI's Joint Controller of Exchange in respect of "force majeure" cases for obtaining decision within a specific time-frame and for avoiding delay. Already, authorised exchange dealers have been delegated powers for permitting certain relaxations from the general rules governing the utilisation of cover, under certain conditions. Therefore, only the "force majeure" cases are entertained by the RBI.

3.18 FUNNELING WORLD BANK FUNDS TO ENGINEERING UNITS WITH EXPORT POTENTIAL

The World Bank had sanctioned $250 million, in early 1986, to give a boost to the exports of engineering goods from India. Of these funds, $160 million have been provided to the ICICI, for deployment among engineering units, by way of modernisation of these units and upgrading the quality of their products so that this could lead to boosting exports from these units.

The four Indian Banks—State Bank of India, Bank of Baroda, Punjab National Bank and Canara Bank—are provided with $70 million, to enable them to disburse their allotted funds, among the smaller engineering units and equip them to find export-markets for their products. Exim Bank of India has been provided with $10 million in finding export markets for Indian engineering units and the balance of $10 million has been given as a grant, again, to ICICI, in boosting the productivity of the engineering units, which also have the potential for exports.
The four commercial banks are to be given $5 million each in the first instance, and the balance of $40 million are to be given to them on first-cum first served basis as soon as they consume their allotted first $5 million.

The norms for obtaining the World Bank funds are that the minimum loan amount is $50,000 and the maximum $500,000 - which is earmarked only for the import of machinery and equipment or technical know-how or designs. The eligibility criteria is as under:

(i) the products to be manufactured by the unit must have exportability;
(ii) the products must have an ancillary aspect to them, and
(iii) there is proof of technology upgradation in the manufacturing process in the unit.

The main benefit to the borrowers is that he is provided the funds in rupees and he has to pay back the loan in rupees - which means that he does not have to worry about the currency risks. The borrowers are protected from foreign exchange fluctuations by the Government of India. The loan is repayable by the borrower within 10 years, with an initial moratorium of 3 years.

The World Bank has fixed the cut-off date for availing its funds, and the banks have to find suitable projects for harnessing these funds by December, 1988; after that the funds lapse. Thus, it is in India’s interests to pick the suitable projects in time and use the funds. Banks have to finalise the selection of projects fast not merely because
the World Bank has set a deadline, but it is in the interest of the national economy to select the projects fast, produce exportable projects and earn through exports. As such, it is self-defeating to have an open-ended loan programme, when the purpose of the loans is for the critical area of exports.

3.19 ADVISORY ROLE AND COUNSELLING SERVICES:
In the context of the export promotion efforts of an underdeveloped country like India, the commercial banks can and do play a useful role, and their foreign-exchange and export service departments provide a well-devised consultancy services, for the benefit of the exporters. Particularly such services can encompass the following facets:

1) It is important for exporters, before entering into business relations with foreign buyers, to assure themselves of the financial standing and business integrity of the latter. Equally important is the periodic renewals of credit information on the foreign importers. The Commercial banks, with their worldwide connections, through 119 branches (Table 3.4)/associated banks/correspondent banks abroad, are placed in an ideal position to provide upto-date status reports on foreign buyers and agents, any where in the world.

2) The banks collect and disseminate comprehensive information on foreign markets(e.g. outlets for exportable commodities, trends and prospects, names of prospective buyers and agents abroad, methods of
TABLE 3.4
INDIAN BANK BRANCHES OVERSEAS: DISTRIBUTION AND OWNERSHIP AS ON 30.6.1988

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>TOTAL</th>
<th>SBI</th>
<th>BOB</th>
<th>BOI</th>
<th>UCO</th>
<th>IB</th>
<th>IDB</th>
<th>SY.B.</th>
<th>BH. OB</th>
<th>CANARA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahrain</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Channel Island</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cayman Island</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M. Germany</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiji</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guyana</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hongkong</td>
<td>10</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>9</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maldives</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>6</td>
<td></td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oman</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seychelles</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>7</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S. Korea</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>6</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
<td>2</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.A.E.</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.K.</td>
<td>33</td>
<td>5</td>
<td>11</td>
<td>13</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.A.</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ALL COUNTRIES 119 23 48 25 7 3 10 1 1 1

LEGEND: SBI: State Bank of India; BOB: Bank of Baroda;
BOI: Bank of India; UCO: UCO Bank;
IB: Indian Bank; IOB: Indian Overseas Bank;
SY.B.: Syndicate Bank; BH. OB: Bharat Overseas Bank;
CANARA: Canara Bank.

transacting business in different countries, procedures applicable to different countries and commodities with tariffs and quota details, etc., through the channels of their foreign branches/associated banks/correspondent banks.

(3) The banks collect and disseminate information on import regulations, exchange control regulations, and other monetary and fiscal measures prevailing in this country and in various countries abroad, and keep such information up-to-date, for the guidance and benefit of the exporters, both established and prospective.

(4) The Banks collect and disseminate up-to-date information on the various export credit facilities and export credit insurance and guarantees, particularly information on the working of and the facilities available from the Export Credit and Guarantee Corporation, and introduce the exporters to the ECGC and other official bodies providing assistance to the exporters.

(5) The banks provide guidance to the exporters in the quotations of export prices and the preparation of export documents, in compliance with the various regulations and procedures relating to export of goods, inspection, drawbacks of customs and other duties, cash subsidy, income-tax rebate on export earnings, etc.

(6) The banks guide the exporters in matters like:
(a) negotiation and finalisation of sales contracts, more particularly sales contracts involving medium and long term financial implications;
(b) negotiation and finalisation of export contracts covering turn-key projects, joint ventures, etc.,
(c) negotiation and finalisation of contracts involving appointment of agents, calculation and disbursement of agency commission, etc.,
(d) exchange control formalities,
(e) export promotion measures,
(f) documentation, shipping documents, etc., and
(g) Uniform Customs and Practice for Documentary Credits, etc..

(7) An important aid to the exporters or their representatives proceeding abroad on business trips is that the banks provide them with letters of introduction addressed to branches/associated banks/correspondent banks abroad, to enable these businessmen to have a reliable starting point for their enquiries. Such valuable introductions to traders can lead to and often result in unexpected opportunities for obtaining new business.

(8) Branches/associated banks/correspondent banks abroad of the commercial banks in India might approach the latter with enquiries about the Indian goods available for export. There can be a purposeful and profitable liaison between the Indian exporters and the commercial banks, in this respect, with a view to giving a dynamic push to India's export efforts.