Facilities for Exporters and Importers

EXCHANGE AND TRADE CONTROL GUIDELINES FOR EXPORTERS

Importer-Exporter Code Number

Every person/ firm / company engaged in Export-Import trade has to apply for and obtain an importer-exporter Code Number (IEC Number) from the Director General of Foreign Trade (DGFT).

This is a registration number of the firm/ company for international trade and the exporter/ importer has to invariably quote this code number in all declarations/ forms, etc., a few of which are explained below:

Export Declaration Forms

As of FEMA, all export of goods from India, whether in physical form or any other form, requires to be declared in the prescribed forms to the effect that full value of exports will be realized within the prescribed period and in the prescribed manner.

The prescribed forms are GR, PP, SOFTEX and SDF forms which are used for the purposes noted below:

(i) GR Form: Exports made otherwise than by post

(ii) PP Form: Exports made by post parcel

(iii) SOFTEX Form: Export of software in non-physical form.

iv) With the introduction of Electronic Data Interchange (EDI) system at certain Customs offices, where shipping bills are processed electronically, the GR form has since been replaced by a declaration in form SDF (Statutory Declaration Form). The SDF form should be submitted in duplicate (to be annexed to the relative shipping bill) to the concerned Commissioner of Customs.

Exemptions

Following exports/ shipments out of India are exempted from Export Declaration Forms, in terms of Regulation 4 of FEMA:

- Trade samples of goods and publicity material supplied free of payment.
- Personal effects of travelers, whether accompanied or unaccompanied.
- Ship's store, trans-shipment cargo, and goods supplied under orders of Central Government.
- Goods or software, when accompanied by a declaration by the exporter that they are not more than USD 25,000 in value,
- **Gifts of goods, valuing not over Rs 5,00,000** along with declaration of exporters.
- Aircraft or aircraft engines and spare parts for overhauling or repairs abroad, subject to conditions.
- Goods imported free of cost, on re-export basis.
- Goods not exceeding USD 1000 per transaction, exported to Myanmar, under bilateral trade agreement.
- Goods sent out of India for testing subject to re-import.
- Defective goods sent for repairs, subject to re-import.

- Other exports permitted by RBI, subject to conditions, as specified.
- Goods permitted by development commissioners of EPZ, Technology parks, SEZ, etc.

Prescribed Time Limits

For Submission of Export Documents

- The exporter is required to submit the export documents, along with the duplicate/ exchange control copy of GR/ PP/ SDF form within 21 days from the date of shipment to an authorised dealer, for collection, purchase, discount or negotiation, as the case may be.
- Even in cases of direct shipment of goods, the relative documents are to be submitted to the bankers, within this time limit.

For Realisation of Export

Realization for Exports: In terms of regulation 9 of the FEM Export Regulations, every exporter is required to ensure that the amount representing the full value of export of goods, software or services exported from India shall be realised and repatriated to India, within **9 (nine) months from the date of export**, provided that:

1. where the goods are exported to a warehouse established outside India it is to be realised within **15 (fifteen) months from the date of shipment of goods**; and
2. subject to the directions issued by the RBI in this behalf, the AD Bank may, for a sufficient and reasonable cause shown, extend the period of 9 months or 15 months, as the case may be.

Relaxation provided by RBI:

In a press release dated April 1, 2020, RBI has extended the time period for realization and repatriation of export proceeds for exports made up to or on July 31, 2020, from the stipulated period of 9 (nine) months to 15 (fifteen) months from the date of such export.

- **If the bill is not realised within this time stipulated**, the exporter should apply to his AD for extension of time in ETX form.
- **All overdue bills which are not realized within the due date** should be followed up vigorously and reported to Reserve Bank of India in a half-yearly statement XOS (To be submitted by each AD branch for June and December each year).

Prescribed Method of Payment

The payment for export proceeds should be received through the medium of the Authorised Dealers (ADs), in any one of the following manners:

(a) Form of bank draft, pay order, etc.
(b) Foreign currency notes, travelers' checks from the buyer.
(c) Payment out of FCNR, NRE account of the buyer.
(d) Through International credit cards, when goods are sold during the overseas visit of the exporter concerned.
(e) In Indian rupees, when transaction is with persons resident in Nepal.
(f) In the form of gold/ silver/ platinum by gem and jewellery units situated in SEZS, provided the contract provides for the same.

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The above payments are to be received through an AD, however in exceptional cases where the track record of the exporter is good, ADs will accept the amount received by exporters direct by cheque, DD, etc.

FACILITIES FOR EXPORTERS - FACILITIES/ REMITTANCES

Reduction in Invoice Value

In case of prepayment of usance bills: Exporters may allow reduction in invoice value, on account of cash discount to overseas buyers, for prepayment of usance bills.

The discount can be allowed for the unexpired period at the stipulated rate of interest or a LIBOR of the currency.

In other cases, where the export bill has been negotiated or sent for collection, if reduction in invoice value is required to be allowed, ADs can approve the reduction, if satisfied about the genuineness of the request, provided

(1) the reduction does not exceed 25% of the invoice value, the reduction is not in respect of commodities subject to minimum price restrictions, (floor price) and the exporter should not be in the exporters caution list of RBIs.

(2) The reduction can be allowed without any percentage restriction, in case the exporter is in the export business for last three years, the track record is satisfactory and the export bills outstanding in the account is not more than 5% of the average annual export turnover of the preceding three calendar years.

Write off of unrealized export bills

An exporter who has not been able to realize the outstanding export dues despite best efforts, may either self-write-off **or** approach the AD, who had handled the relevant shipping documents, with appropriate supporting documentary evidence.

Self-write-off by an exporter (***Other than Status Holder Exporter***)	5%*	***of the total export proceeds realized during the previous calendar year**.
Self-write-off by Status Holder Exporters	10%*	
Write-off by **AD (Authorized Dealer)**	10%*	

Exporter's Caution List

The exporters were added to the caution list automatically, if any shipping bill against them remained outstanding for more than two years.

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) has decided to discontinue the system-based automatic caution-listing of exporters in view of the impact of COVID-19 pandemic.

Foreign Currency Accounts

Overseas Foreign Currency Account

- The Reserve Bank of India permits exporters to open foreign currency accounts in foreign countries, or in India, to hold export proceeds, for the purpose of making payments for the goods imported.
- This can be opened to save on exchange fluctuations as also operating cost and time in bringing the proceeds into India and remit back for payment purposes.

- Participants in international trade fairs/ exhibitions have been allowed to open temporary foreign currency accounts, to deposit sale proceeds.
- The balances in these accounts have to be repatriated to India, within one month from the close of the exhibition/ trade fair.

DIAMOND DOLLAR ACCOUNTS – DDA

Eligibility: Firms and Co's dealing in purchase/sale of rough or cut and polished diamonds / precious metal jewellery plain, or studded with without diamond and / or other stones, **with a track record of at least 2 years in import/ export** of diamonds / colored gemstones / diamond and colored gemstones studded jewellery / plain gold jewellery

Having an average annual turnover of Rs.3 crores or above during the preceding three licensing years (licensing year is from April to March).

- **They may be allowed to open not more than five Diamond Dollar Accounts with their banks.**
- A/c as current account and no interest is paid
- No inter account transfer and is in USD only
- Pre-shipment/ post shipment proceeds can be credited.
- Realization of export proceeds.
- Realization of local sales but in USD

Exchange Earner's Foreign Currency Account (EEFC)

- Any person resident in India, who is an earner of foreign currency (including Special Economic Zones, Software Technology Parks, Export Processing Zones and status account holders), can open and maintain

with an authorised dealer in India, a foreign currency account known as Exchange Earners Foreign Currency Account (EEFC),

- Account maintained in FC with AD
- Form of current account and no interest is paid on the amount held.
- Can be opened by all categories of foreign exchange earners such as individuals, companies etc who are resident in India
- Facility provided to foreign exchange earners including exporters to credit 100% of their Foreign Exchange earnings to the account, so that they do not have to convert the Forex into rupee and hence thereby minimizing the transaction cost.

EXPORT FINANCE

- The Reserve Bank of India has framed specific guidelines for finance to exporters, so as to allow finance at concessional interest rates, to make exporters compete with their competitors from other countries, as also to boost the exports from the country.
- The finance to exporters can be rupee finance, or it can be finance in foreign currency.
- An exporter may require financial assistance for procurement of goods as also to fund the export bills.
- Finance allowed to an exporter, to fund the need for procurement of raw material, manufacturing and upto the stage of packing and shipment, is called **Pre-Shipment Finance/Loan (PCL).**
- While on the other hand, finance against export bills, when the shipment is already made, is called **Post Shipment Credit or Post-Shipment Export Finance (PSEF)**.
- Both of these are allowed exporters in Indian rupees as also in foreign currencies.

Pre-shipment finance can be of two types:

1. Packing Credit (PCL),
2. Advance against Govt. receivables, i.e. Duty Drawback, etc.

Post-shipment finance can be of various types, as under:

1. Export bills purchased/ discounted/ negotiated
2. Advance against bills sent on collection
3. Advances against exports on consignment basis
4. Advances against undrawn balances
5. Advances against Duty Drawback

Pre-shipment Rupee Export Credit

Financial assistance extended to the exporter from the date of receipt of the export order till the date of shipment is known as pre shipment credit. It is extended for procurement of raw materials, processing, packing, transporting, warehousing of the goods meant for Exports

Period of Advance

- It can be decided by the on the basis of time required for procuring, manufacturing, processing and shipping the relative goods or rendering of the services.
- Is pre shipment credit is not adjusted by submission of export documents within 360 days from the date of advance, the advanced will cease to qualify for concessive rate of interest to the exporter ab initio

Disbursement

Each packing credit sanctioned should be maintained as a separate account for the purpose of monitor in the period of sanction and end use of funds.

Liquidation of packing credit

- Packing credit can be liquidated out of the proceeds of bills drawn there by converting the pre shipment to post shipment credit.
- Also subject to mutual agreement between the exporter and the banker, the export credit facility can be liquidated out of the balance is in exchange earners foreign currency account, diamond dollar account and also from the Rupee resources of the exporter up to the extent of the exports that are actually taken place.

<u>**Where packing credit is in excess of export value:**</u>

a.) Where by product can be exported

- In case the exporter is unable to tender export bills of excellent value for liquidating the packing credit due to shortfall on account of wastage involved in the processing of Agro products like raw cashew nuts etc.
- In that case banks may allow for exporters to extinguish the excess packing credit by export bill drawn in respect of by product like cashew Shell oil etc.

b.) Where partial domestic sale is involved: in some of the exports category the exporter has necessary to purchase a somewhat larger quantity of the agriculture produce and grade it into exportable and non-exportable varieties.

Non-exportable varieties sold domestically and for the packing credit covering such non-exportable portion banks need to charge rate of interest applicable to the domestic advance from the date of advance of packing credit.

c.) Export of deoiled or defatted cakes: banks are required to grant packing credit advance to exporters of HPS groundnut and deoiled/ defatted cakes to the extent of the value of raw materials required even do the value their of exceeds the value of the export order is a required to be adjusted either in cash or by sale of residual by product oil within a period not exceeding 30 days from the date of advance

Where exporter clients having good track record

- Repayment on liquidation of a packing credit with proceeds of export documents relating to any other order covering the same or any other commodity exported by the exporter.
- The existing packing credit may also be marked off with the proceeds of export documents against which no packing credit has been drawn by the exporter but it must be insured by the bank that the exporter has not availed of packing credit from another bank against the documents submitted

Running account facility

- In general, pre shipment finance is available to exporters against lodgement of letter of credit or firm orders. But the pre-shipment export credit facility in respect of any commodity without interesting

lodgement of LC for export orders by the banks that is pre-shipment running account facility can be granted, subject to

- Only those exporters having good track record and also to EOUs/ units in free trade zones and special economic zones, **but not to be granted to sub suppliers**
- The facility can also be marked off with the proceeds of the export documents against which no packing credit has been drawn by the exporter
- Banks will mark of individual export bills as and when they are received for negotiation or collection against the earliest outstanding pre-shipment credit on first in first out basis

Export Credit against Proceeds of Cheques, Drafts, etc. Representing Advance Payment for Exports

Where exporters receive direct remittances from abroad by means of cheques, drafts payment for exports, banks may grant export credit to exporters of good track record till the realization of proceeds of the cheque, draft etc. received from abroad, after satisfying themselves that:

1. it is against an export order
2. is as per trade practices in respect of the goods in question; and
3. it is an approved method of realization of export proceeds as per extant rules.

If, pending compliance with the above conditions, an exporter has been granted accommodation at normal commercial interest rate, banks may give effect to prescribed rate for export credit rate retrospectively once the aforesaid conditions have been complied with and refund the difference to the exporter.

Pre-shipment Credit in Foreign Currency (PCFC)

- PCFC facility is granted to exporters in Foreign Currency for domestic and imported inputs of exported goods at LIBOR/ EURO LIBOR/ EURIBOR related rates.
- This is an additional window for providing pre-shipment credit to Indian exporters at internationally competitive rates
- The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro
- The risk and cost of cross currency transaction will be that of the exporter. Banks are permitted to extend PCFC for exports to ACU countries.

Source of Funds for Banks

1. Banks are permitted to utilize the foreign currency balances available with the bank in Exchange Earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency Accounts {RFC(D)} and Foreign Currency (Non-Resident) Accounts (Banks Scheme, and the foreign currency balances available under Escrow Accounts and Exporters Foreign Currency Accounts for financing the pre-shipment credit in foreign currency.
2. Banks may also arrange for borrowings (Line of credit) from abroad without RBI approval provided the rate of interest on the borrowing does not exceed 100 basis points over six months LIBOR/EURO LIBOR/EURIBOR
3. Banks may also avail lines of credit from other banks in India in case they are not in a position to raise loans from abroad subject to the

condition that the ultimate cost to the exporter should not exceed 200 bps above LIBOR/ EURO/ EURIBOR, etc.

Period of Credit

- The PCFC would be determined on case to case basis and will be available for a maximum period of 360 days.
- Further extension will be subject to the terms and conditions fixed by the bank concerned and if no export takes place within 360 days, the PCFC will be adjusted at T.T. selling rate for the currency concerned.

Disbursement of PCFC

- In case full amount of PCFC or part thereof is utilized to finance domestic input, banks may apply appropriate spot rate for the transaction.
- Based on the operational convenience, banks may stipulate the minimum lots taking into account the availability of resources, etc.

Liquidation of PCFC accounts

- PCFC can be liquidated out of proceeds of export documents on their submission for discounting/ rediscounting under the EBR Scheme or by grant of foreign currency loans or out of balances in EEFC A/c and
- Also, from rupee resources of the exporter to the extent exports have actually taken place

Cancellation/ non-execution of export order

1. In case of cancellation of the export order or if the exporter is unable to execute the export order for any reason, it will be in order for the exporter to repay the loan together with accrued interest thereon, by purchasing foreign exchange (principal + interest) from domestic market through the bank.
2. It will also be in order for the banks to remit the amount to the overseas bank, provided the PCFC was made available to exporter from the line of credit obtained from that bank.
3. Banks may extend PCFC to such exporters subsequently, after ensuring that the earlier cancellation of PCFC was due to genuine reasons.

Running Account Facility

Banks are permitted to extend the 'Running Account' facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit. The facility may be extended only to those exporters whose track record has been good.

POST SHIPMENT RUPEE EXPORT FINANCE

Post-shipment Credit' is a working capital facility granted by a bank to an exporter of goods/ services from the date of extending credit after

shipment of goods/ rendering of services to the date of realization of export proceeds

Liquidation

Post-shipment credit is to be liquidated by the proceeds of export bills received from abroad in respect of goods exported/services rendered. It can also be repaid/ prepaid out of balances in Exchange Earners Foreign Currency Account (EEFC) as also from proceeds of any other unfinanced (collection) bills

Period

1. In case of demand bills or Sight Bills the period of advance can be for the Normal Transit Period + grace period as prescribed by FEDAI.
2. In case of usance bill or acceptance bill it is maximum for 270 days from date of shipment inclusive of NTP and grace period if any.

Normal transit period' means the average period normally involved from the date of negotiation/ purchase/ discount till the receipt of bill proceeds in the Nostro account of the bank concerned. It is not to be confused with the time taken for the arrival of goods at overseas destination.

Advances against Undrawn Balances on Export Bills

- In respect of export of certain commodities where exporters are required to draw the bills on the overseas buyer upto 90 to 98 per cent of the FOB value of the contract, the residuary amount being undrawn balance' is payable by the overseas buyer, satisfying himself about the quality/ quantity of goods.

- Payment of undrawn balance is contingent in nature.
- Banks may consider granting advances based on their commercial judgment and the track record of the buyer for a maximum period of 90 days only.
- Provided such remittances are received within 180 days after the expiry of normal transit period.
- Any period beyond 90 days, the rate of interest specified for the ECNOS at the post-shipment stage may be charged

ECNOS

ECNOS means **Export Credit Not Otherwise Specified** in the interest rate structure Banks. In these cases, banks are free to decide the rate of interest keeping in view of benchmark rate and spread guidelines in respect of specified ECNOS. No penal interest to be charged on ECNOS.

Advances against Retention Money

- Retention money may be sometimes stipulated against the supplies portion in the case of turn-key projects. The payment of retention money is contingent in nature as it is a deferred liability.
- No advances may be granted against retention money relating to services portion of the contract.
- **Where the retention money is payable within a period of one year from the date of shipment**, banks should charge prescribed rate of interest upto a maximum period of 90 days. The rate of interest prescribed for the category 'ECNOS' at post-shipment stage may be charged for the period beyond 90 days.

- **Where the retention money is payable after a period of one year from the date of shipment**, it will be treated as post-shipment credit given on deferred payment terms exceeding one year, and the bank is free to decide the rate of interest.

Export on Consignment Basis

- Under the **consignment basis**, the seller ships the goods to his agent or representative. As and when agent sells the goods, he makes the remittance to the principal. Precious and semi-precious stones, etc. are exported mostly on consignment basis.
- Export on consignment basis should be at par with exports on outright sale basis on cash terms in matters regarding the rate of interest to be charged by banks on post-shipment credit.

Export of Goods for Exhibition and Sale

Banks may provide finance to exporters against goods sent for exhibition and sale abroad in the normal course in the first instance, and after the sale is completed, allow the benefit of the prescribed rate of interest on such advances, both at the pre-shipment stage and at the post-shipment stage, upto the stipulated periods, by way of a rebate, Such advances should be given in separate accounts.

Advance against Duty Drawback Entitlements

- Banks may grant post-shipment advances to exporters against their duty drawback entitlements and covered by ECGC guarantee as

provisionally certified by Customs Authorities pending final sanction and payment.

- It can also be made available to exporters against export promotion copy of the shipping bill containing the EGM Number issued by the Customs Department.
- Where necessary, the financing bank may have its lien noted with the designated bank and arrangements may be made with the designated bank to transfer funds to the financing bank as and when duty drawback is credited by the Customs.

Post-shipment on Deferred Payment Terms

Banks are permitted to grant Post-shipment credit on deferred payment terms for a period exceeding one year, in respect of export of capital and producer goods as specified by RBI (FED) from time to time.

POST-SHIPMENT EXPORT FINANCE IN FOREIGN CURRENCY

Rediscounting of Export Bills Abroad Scheme (EBR)

- Banks may utilize the foreign exchange resources available with them in Exchange Earners Foreign Currency Accounts (EEFC), Resident Foreign Currency Accounts (RFC), Foreign Currency (Non-Resident) Accounts (Banks) Scheme, to discount usance bills and retain them in their portfolio without resorting to rediscounting.

- Banks are also allowed to rediscount export bills abroad at rates linked to international interest rates at post-shipment stage.
- Banks may arrange a "**Bankers' Acceptance Facility"** (BAF) for rediscounting the export bills without any margin and duly covered by collateralized documents.
- Each bank can have its own BAF limit(s) fixed with an overseas bank or a rediscounting agency or an arrangement with any other agency such as factoring agency (in case of factoring arrangement, it should be on 'without recourse basis only).
- The exporters, on their own, can arrange for themselves a line of credit with an overseas bank or any other agency (including a factoring agency) for discounting their export bills

Eligibility criteria

1. The Scheme will cover mainly export bills with usance period upto 180 days from the date of shipment (inclusive of normal transit period and grace period, if any).
2. In case borrower is eligible to draw usance bills for periods exceeding 180 days as per the extant instructions of FED, Post-shipment Credit under the EBR may be provided beyond 180 days.
3. The facility under the Scheme of Rediscounting may be offered in any convertible currency.

Refinance

Banks will not be eligible for refinance from the RBI against export bills discounted rediscounted under the Scheme.

Gold Card Scheme for exporters

RBI, in consultation with select banks and exporters, has announced as Gold Card Scheme in 2005.

The Scheme envisages certain additional benefits based on the record of performance of the exporters. The Gold Card holder would enjoy simpler and more efficient credit delivery.

Eligibility

- All creditworthy exporters, including those in small and medium sectors, with good track record would be eligible
- Gold Card under the Scheme may be issued to all eligible exporters including those in the small and medium sectors who satisfy the laid down conditions.
- The scheme will not be applicable for exporters blacklisted by ECGC or having overdue bills in excess of 10% of the previous year's turnover.

Features:

- Gold Card holder exporters, depending on their track record and credit worthiness, will be granted better terms of credit such as finer rates of interest than those extended to other exporters by the banks.
- Applications for credit will be processed at norms simpler and under a process faster than for other exporters.
- The charges schedule and fee-structure in respect of services provided by banks to exporters under the Scheme will be relatively lower than those provided to other exporters.
- The sanction and renewal of the limits under the Scheme will be based a simplified procedure

- In-principle' limits will be sanctioned for a period of 3 years with a provision for automatic renewal subject to fulfilment of the terms and conditions of sanction.
- A **stand-by limit** of not less than 20 per cent of the assessed limit may be additionally made available to facilitate urgent credit needs for executing sudden orders.
- In case of unanticipated export orders, norms for inventory may be relaxed, taking into account the size and nature of the export order.
- Requests from card holders would be processed quickly by banks within 25 days/ 15 days and 7 days for fresh applications/renewal of limits and ad hoc limits, respectively.
- Gold Card holders would be given preference in the matter of granting of packing credit in foreign currency.
- Banks would consider waiver of collaterals and exemption from ECGC guarantee schemes on the basis of card holder's creditworthiness and track record.
- **value addition** to their cards through supplementary services like ATM, Internet banking, International debit/ credit cards may be decided by the issuing banks.
- on the basis of their track record of timely realization of export bills, will be considered for issuance of foreign currency credit cards for meeting urgent payment obligations, etc.
- Banks may ensure that the PCFC requirements of the Gold Card holders are met by giving them priority over non-export borrowers with regard granting loans out of their FCNR (B) funds, etc
- Banks will consider granting term loans in foreign currency in deserving cases out of their FCNR (B), RFC, etc. funds.

Interest Equalisation Scheme on Pre- and Post-Shipment Rupee Export Credit

- The Government of India announced the Interest Equalisation Scheme on Pre- and Post-Shipment Rupee Export Credit to eligible exporters with effect from April 1, 2015.
- (previously for 5 years upto 31st March, 2020 but now extended for 1 more year up to 31st March 2021)
- equalisation benefit will be available from the date of disbursement up to the date of repayment or up to the date beyond which the outstanding export credit becomes overdue
- Banks shall reduce the interest rate charged to the eligible exporters as per our extant guidelines on interest rates on advances by the rate of interest equalisation provided by Government of India.
- 5% in respect of exports by the Micro, Small & Medium Enterprises (MSME) sector manufacturers and for others 3%
- Benefit is to be transferred by the banks upfront to the exporters and re-imbursement by the banks on monthly basis.
- The reimbursement of interest equalisation claim will be made as and when the funds are received from Government of India.

GUIDELINES FOR IMPORTERS

- Physical movement of goods into India is regulated by Exim Policy formulated by the Director General of Foreign Trade (DGFT),

- The regulations relating to payment of such imports are governed by Exchange Control Regulations framed on the basis of Foreign Exchange Management Act, 1999 (FEMA 1999).

Importer-Exporter Code (IEC): As explained earlier, first and foremost, the importer customer has to have a valid IEC, issued by the office of DGFT.

Approved commodity: OGL or Import licenses: While ADs are required to ensure that the goods imported or intended to be imported are as per the current export-import policy, the goods can be under the Open List (OGL), which can be freely imported, or can be imported under specific license issued for the purpose by the DGFT.

Payments for imports: Any person who wants to make a remittance for imports, exceeding USD 500 or its equivalent, should make an application as prescribed by the RBI to the authorised dealer.

Time limit for import payment: The remittance against imports should be completed not later than six months from the date of shipment.

Any delay beyond this period should be justified by proper explanation from the importer. If the payment is to be made on a deferred payment arrangement (i.e., payment beyond six months and up to a period of three years) it will be treated as Trade Credits.

Advance remittances:

1) Up to USD 100,000 or its equivalent, after duly satisfying about the transaction, nature of trade and standing of the supplier, etc.

2) Where amount of advance for services exceeds USD 500,000 or its equivalent and for physical import remittance exceeds USD 100,000 or its equivalent, an irrevocable standby letter of credit or a guarantee from a bank of international repute situated outside India or a guarantee of a bank in India, if such a guarantee is issued against the counter guarantee of an international bank situated outside India.
3) The requirement of guarantee may not be insisted upon in case of remittances above USD 100,000 and up to USD 5,000,000, subject to a suitable policy approved by the bank's Board of Directors, to undertake such transactions.
4) All cases beyond USD 5,000,000 should be referred to RBI, for prior approval.
5) The importer holds exchange control copy of a valid import license for importing goods under reference or the goods not covered under the negative list.
6) Remittance is made direct to the overseas supplier or his bank, and not to any agent of the supplier.
7) **Physical import into India** should be made within six months (three years in case of capital goods) from the date of remittance and the importer should give an undertaking to produce documentary evidence of import within fifteen days from the close of the relevant period.
8) In case of non-import of goods into India, the AD should ensure that the amount of advance remittance is repatriated to India or is utilized for any other purposes permissible under the extant rules or regulations.

Evidence of Imports

Importers are required to produce and submit to the AD who has handled opening of LC or the remittance of import bill,

- the exchange control copy of the Bill of Entry/ Postal appraisal form or Customs assessment certificate, duly approved by customs.
- The Bill of Entry should be preserved by authorised dealer and made available to Internal Auditors/ RBI Inspectors for verification.
- In case of import through postal service and courier service, postal/ courier wrapper must be obtained and preserved.
- Banks have been advised to have their own policy, duly approved by their Board of Directors, for follow up of the submission of evidence of import involving amount of USD 100,000 or less.
- Bill of entry is mandatory within 3 months from date of remittance in all cases where the value of foreign exchange remitted for import exceeds USD 100,000 or its equivalent
- In case the Bill of Entry is not submitted by importer in case of the remittance exceeds USD 100,000 within 3 months bank should rigorously follow up.
- AD should forward a statement consisting list of such defaulters to RBI on half yearly intervals within 15 days from the close of the half year, in the form of BEF furnishing the details of these import transactions.

Imports by a company listed on a stock exchange, whose net worth is not less than Rs 100 crore as on the date of last balance sheet, ADs may accept either the copy of Bill of Exchange or a certificate from the CEO or the auditor of the company, certifying that the goods for which the remittance was made, have actually been imported into India, provided that the foreign exchange remitted is less than USD 1,000,000 or its equivalent.

IMPORT FINANCE

Import Letter of Credit

This is the most used method of financing imports. The importer gets LC limits sanctioned from his bank and establishes LC on DA basis (usance), there by getting credit from the overseas supplier on the strength of his banks credibility (LC).

IMPORT LOAN

- Such loans are granted against imported raw material, or goods meant for trading.
- The loans can be against pledge of goods or hypothecation to the financing bank.
- Importers prefer such loans, even at higher rates of interest, to hoard goods and to take benefit of depreciating domestic currency.

TRADE CREDIT - SUPPLIER'S CREDIT AND BUYER'S CREDIT

SUPPLIER'S CREDIT

- Supplier's Credit is credit directly extended by the overseas supplier of goods to the importer.
- The terms can be down payment with the balance payments in installments.

- The exporter may avail finance against the bills, after making the shipment, from his banker and the bank would receive funds on the maturity date.
- However, the exporter shall be liable to repay his bank, in case the overseas buyer does not make payment on due date.
- In India, the period of supplier's credit is governed in terms of exchange control guidelines issued by Reserve Bank of India.
- Any credit extended for three years or more shall be in the category of External Commercial Borrowings (ECB).

BUYER'S CREDIT

- The buyer's credit is credit arranged by the importer (buyer), from a bank/ financial institution outside his country, to settle the payment of imports.
- In short, it is credit arranged by the buyer to settle import payments, irrespective of the period of credit.
- In this type of credit, the supplier of the goods need not worry about the payment, as the payment is assured by the bank/ financial institution, provided he completes his responsibility as per the requirement of the buyer.
- In India, the buyer's credit, as in the case of supplier's credit also, is regulated by exchange control guidelines issued by Reserve Bank of India, from time to time.

Factoring

Factoring also known as **account receivables factoring** or debtor financing, is a method in which **a company (client)** sell its account receivables (debt) to a **bank or financial institution (called factor)** at a certain discount.

It has been introduced in India during 1991 on the report of KalyanSundaram Committee.

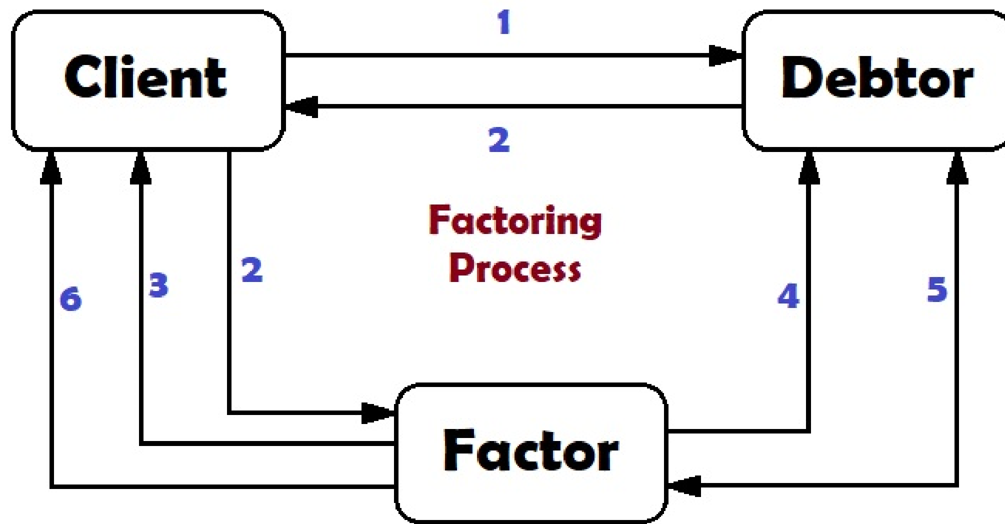
Banks are not permitted to do this business themselves but they can promote subsidiaries to do this.

There are three parties involved in factoring contract –

1. ***Debtor (Buyer of Goods) –*** One who has purchase goods or services on credit and has to pay for same once the credit period gets over.
2. ***Client (Seller of Goods) –*** who has supplied goods or services to the customer on credit terms.
3. ***Factor (Financier) –*** who purchase the account receivables from client (seller of goods) and collect the money from debtor of his clients.

In other words, Factoring is a mechanism in which an **exporter (seller)** transfers his rights to receive payment against goods exported or services rendered to the **importer**, in exchange for instant cash payment from a factor.

It can be with recourse or without recourse basis.



FORFAITING

- In Forfaiting, Exporter sell their medium- and long-term account receivables at a discount and obtain cash from the forfaiter on **non-recourse basis**.
- In Forfaiting, there is no risk for exporter of importer becoming insolvent as there is **100 percent finance** of contract value.

<u>**Benefits of Forfaiting to Exporters**</u>

(a) Takes away political and commercial risks associated with export receivables.
(b) Makes available 100% finance against the invoice drawn.
(c) Without recourse facility.
(d) Freedom from credit administration, and follow-up.
(e) Cost saving on export credit insurance, besides related paperwork.
(f) Fixed rate financing, freedom from movement of interest rates for the tenor of the bill.

Q1: The credit arranged by the buyer (importer) from a bank / FI institution outside India to settle the payment of imports is called:

A.) buyer's credit
B.) supplier's credit
C.) trade credit
D.) external commercial borrowing

Q2: The supplier's credit extended by the overseas supplier for a period of more than 6 months from date of shipment and up to less than 3 years is not termed as:

A.) buyer's credit
B.) supplier's credit
C.) trade credit
D.) external commercial borrowing

Q3: The pre-shipment credit can be adjusted by the exporter out of which of the following (which of these is not correct in this connection)

A.) proceeds of the post-shipment finance i.e by converting the pre-shipment to post-shipment

B.) from the balance lying in the EEFC account of the exporter
C.) from rupee sources of the exporters to the extent the export have actual taken place
D.) if it is not adjusted in the above manner the banks can charge interest at rate prescribed by RBI.

Q4: period of pre-shipment credit given to an exporter is restricted to:

A.) 180days from date of advance
B.) 270 days from date of advance
C.) at discretion of the bank looking into the shipment date and other considerations but restricted to 360 days
D.) period should be restricted to maximum of 360 days

Q5: An Exchange Earners Foreign Currency-- EEFC account can be opened in which of the following forms:

A.) current account
B.) saving bank
C.) recurring deposit
D.) fixed deposit

Q6: which of the following statement is not correct in the context of imports in to India:

A.) import trade is regulated by RBI
B.) imports in India should be as per extant foreign trade policy
C.) imports should be in terms of foreign exchange management rules 2000
D.) none of the above

Q7: Which of the following is correct statement regarding the risk of loss from non- payment in factoring:

A.) in with recourse factoring, the risk is that of the factor
B.) in without recourse factoring, the risk is that of the client
C.) in with recourse factoring the risk is that of the factor and in without recourse factoring it is of the client
D.) in without recourse factoring the risk is that of the factor and in with recourse factoring it is of the client

Q8: what is the time period for which post-shipment finance for purchase of demand bills is allowed:

A.) up to realization of export proceeds
B.) up to normal transit period during which the goods reach the destination
C.) upto normal transit period fixed by FEDAI
D.) Discretion of the Banks

Q9: where submission of bill of entry forms is delayed by the importers is required to be informed through a statement (which of the following is not correct):

A.) on half yearly basis for June and December
B.) statement is to be submitted within 15 days from close of half yearly
C.) statement should cover only those bills where amount is above US $ 100000
D.) statement should be submitted on form XOS

Q10: The supplier's credit extended by the overseas supplier for a period of more than 3 years is termed as:

A.) buyer's credit
B.) supplier's credit
C.) trade credit
D.) external commercial borrowing

Q11: Firms and companies engaged in purchase/ sale of rough diamonds, can open dollar diamond accounts if their track record in import & exports is atleast ___ years and their annual average turn over during 3 licensing years is Rs. ____ or above:

A.) 3 years, Rs. 1 cr
B.) 2 years, Rs. 3 cr
C.) 3 years, Rs. 5 cr
D.) 5 years, Rs. 10 cr

Q12: which of the following documents is used as evidence of imports in India:

A.) exchange control copy of bill of entry form
B.) postal appraisal certificate
C.) customs assessment certificate
D.) any of the above

Q13: The mechanism for financing by discounting of export receivables, without recourse to the exporter / seller for a medium term, on a fixed rate basis for full value of the contract / invoice is called:

A.) forfaiting
B.) factoring
C.) buyer's credit
D.) seller's credit