EXPORT FINANCE

🌍 Role of Exports in Economic Growth

Exports play a crucial role in accelerating the economic growth of developing countries like India.

To maintain a healthy balance of trade and foreign exchange reserves, it is essential to achieve a sustained and high rate of export growth. Among the several factors influencing export growth, **credit** stands out as a key enabler, allowing exporters to efficiently execute their export orders.

🏦 **Commercial banks** primarily provide short-term export finance through: ✅ **Pre-shipment credit** (before goods are shipped) ✅ **Post-shipment credit** (after goods are shipped)

📌 **Export finance can be availed in both Indian Rupees and foreign currency.**

📜 Definition of Exports as per FEMA

According to the **Foreign Exchange Management Act (FEMA),** export refers to:

Mode	Definition
📦 Goods	Taking out any goods from India to a place outside India.
💼 Services	Provision of services from India to any person outside India.

📤 **"Taking out" includes:** Sending goods via land, sea, or air through consignment, sale, lease, hire purchase, or any other arrangement. For software exports, it also includes transmission via electronic media.

🔍 **Example:**

➡️ *A textile company in Ludhiana exports cotton shirts to a retailer in London. The shipment is sent via air cargo.* ✈️

➡️ *An IT firm in Bangalore provides software development services to a client in the USA through cloud-based solutions.* 💻

📊 Stages of Export Finance

Export finance is provided at two key stages:

Stage	Description
📌 **Pre-shipment Finance**	Provided from the date of export order receipt until shipment for procurement, processing, and packing of goods.
🚢 **Post-shipment Finance**	Covers working capital needs from shipment to the realization of payment from the overseas buyer.

🔹 **Pre-shipment finance** helps exporters manage costs before goods leave the country.

🔹 **Post-shipment finance** ensures they have funds while waiting for overseas payments.

📦 Pre-Shipment Finance

💰 Pre-Shipment Rupee Export Credit

The following types of financial assistance are available under pre-shipment credit:

📌 Type of Finance	📝 Description
💵 **Export Packing Credit (EPC)**	Working capital finance for purchasing, processing, or manufacturing goods before shipment.
🌍 **Packing Credit in Foreign Currency (PCFC)**	Similar to EPC but in foreign currency.
🎁 **Advance against Government Incentives (ECGC policy)**	Financing against government-backed export incentives.
📜 **Advance against Receivables (Duty Drawback Scheme)**	Loan against tax/duty refunds received post-export.
💳 **Advance against Cheques/Drafts for Exports**	Credit against advance payments received via cheques or drafts.

📌 **Example:**

👕 *A garment exporter receives a large order from Germany. The company uses Export Packing Credit (EPC) to buy raw materials and manufacture the garments before shipping.*

🏦 Export Packing Credit (EPC) in Rupees

Pre-shipment or Packing Credit is a working capital finance facility provided to an exporter for: ✅ Purchasing raw materials ✅ Processing and manufacturing ✅ Packing goods for shipment ✅

⏳ Period of Advance

📌 The duration of packing credit advances depends on factors such as **procurement time, manufacturing processes, and shipping schedules**.

Scenario	Loan Duration
📅 If settled within **360 days**	✅ Eligible for lower export credit interest rate.
❌ If not settled within **360 days**	❌ Loses export credit benefits from inception.

✅ Eligible Borrowers

To qualify for export finance, an exporter must fulfill the following conditions:

✅ Criteria	📝 Requirement
🔖 **Regulatory Compliance**	Must have **IEC code** from **DGFT** (not required for sub-suppliers).
📑 **Export License/Quota**	Required for certain industries (e.g., Gems & Jewelry).
🏦 **Financial Standing**	Exporter must pass due diligence checks and be an established exporter.
💰 **LC & Buyer Verification**	Bank must ensure credibility of LC-issuing bank and overseas buyer.
📦 **Order Execution Capability**	Exporter must prove ability to fulfill order on time.
🌍 **Country Risk Analysis**	Bank assesses regulations, political conditions, and financial stability in the importer's country.
💲 **Loan Amount**	Normally, loan does not exceed **FOB value** or **domestic cost of production**, whichever is lower.

📌 **Example:** A small business in Jaipur exporting handicrafts applies for a Packing Credit Loan. The bank verifies its export order, LC, and financial background before approving the loan.

💳 Disbursement of Funds

🏦 Banks maintain separate accounts for each packing credit sanctioned.

✅ **Disbursement Methods:** 📍 Lump sum disbursement for direct execution 📍 Stage-wise release depending on goods/services exported

🚨 **Monitoring:** Banks must: 🔹 Ensure funds are used for genuine export needs. 🔹 Track exporter progress to avoid loan misuse.

🏗️ Rupee Pre-Shipment Credit for Construction Contractors

📌 Overview

Banks can provide **Packing Credit** to construction contractors for **initial working capital requirements** (preliminary expenses) when executing contracts abroad. This facility is granted based on a **firm contract secured from abroad** and is maintained in a **separate account**.

🔹 Purpose of Pre-Shipment Credit for Construction Contractors

📌 Purpose	🛠️ Details
🚢 **Transporting Technical Staff**	Covers travel and accommodation expenses of engineers, architects, and project managers.

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📌 Purpose	🛠️ Details
🏗️ **Procurement of Consumables**	Purchase of necessary raw materials and consumables for executing the contract.
📜 **Preliminary Expenses**	Any initial expenditure required to kickstart the overseas project.

🔄 Repayment & Adjustment of Advances

- 💰 **Repayment Deadline: 365 days** from the date of the advance.
- ✔️ **Adjustment Methods:**
    - Negotiation of **bills related to the contract**.
    - **Remittances received** from abroad for contract execution.

🔴 **If the amount remains unadjusted** beyond the stipulated time, the bank will apply the **normal working capital interest rate** on the outstanding balance.

🌍 **Export of Services**

Exporters of services can avail **Pre-Shipment and Post-Shipment Finance** for **all 61 tradable services** under the **General Agreement on Trade in Services (GATS)**.

🔹 Key Guidelines for Export of Services

🔍 Criteria	✅ Requirements
📑 **Compliance**	Must follow RBI's guidelines on service export finance.
🔄 **No Double Financing**	Ensure there is no duplication of credit facility.
📊 **Track Record**	Banks to assess the exporter's credibility & overseas counterpart.
💵 **Export Credit Liquidation**	Funds should be repaid using remittances from abroad.

💡 Example:

An **IT services company** in India secures a **contract with a US-based firm**. They apply for a **pre-shipment loan** to cover developer salaries & software costs. Once the client **pays the invoice**, the exporter **settles the loan** with the bank.

📜 Essential Checks Before Granting Export Credit for Services

Before approving export finance for service exporters, banks must **verify** the following:

✅ Verification Criteria	📝 Details
📄 **Genuine Service Export**	The proposal must represent an **actual export of services**.
🔍 **Service Inclusion**	The service must be listed in **Appendix 15/1 of HBPv1**.
🏛️ **Registration**	The exporter should be registered with **Electronic & Software EPC, Services EPC, or FIEO**.
🖊️ **Export Contract**	There should be a **valid contract** for service export.
⏳ **Time Lag**	Working capital should cover **expenses incurred before invoice payment**.
🔄 **No Double Financing**	Ensure no duplication in financing.
💰 **Loan Limit**	The export credit should not exceed **foreign exchange earnings (minus margin, if any)**.
📑 **Invoices & Payments**	Banks must verify **invoice generation & inward remittance** in foreign exchange.

🌿 Pre-Shipment Credit for Agro-Based Exports

🚜 Applicable Sectors

- **Floriculture (Cut Flowers 🌷)**
- **Grapes 🍇**

- **Other Agro-Based Products** 🌾

🏦 Financing Scope

🌱 Activity	💰 Eligible for Credit?
🌼 **Purchase of Cut Flowers**	✅ Yes
✂️ **Post-Harvest Expenses**	✅ Yes
💉 **Fertilizers & Pesticides Purchase**	✅ Yes (Only for export-related activities)
🏗️ **Land Development**	❌ No
🛠️ **Import of Foreign Technology**	❌ No
🚜 **Machinery/Equipment Purchase**	❌ No

🔹 **Important:** Banks must ensure the activities are **directly linked to exports** and not covered under NABARD or any other agency's finance scheme.

💡 **Example:**

A **grape exporter in Maharashtra** takes **pre-shipment credit** to purchase pesticides and fertilizers for export-quality produce. Once the grapes are **sold abroad**, the exporter **settles the loan** with remittances received.

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📦 Export Credit for Agri-Export Zones (AEZs)

Export Processing Units (EPUs) in **Agri-Export Zones** can avail **Packing Credit** to help farmers procure **high-quality inputs**, ensuring **better yield and competitive exports**.

🔹 Benefits of Packing Credit for AEZs

🚜 Key Benefits	✅ Impact
🔬 **High-Quality Inputs**	Farmers get **access to premium fertilizers, pesticides, and seeds**.
📉 **Reduced Costs**	**Bulk procurement** leads to cost reduction.
🌍 **Better Export Quality**	Ensures **global-standard crops** for export.
🔄 **Economies of Scale**	Helps in **large-scale farming & better price realization**.

💡 Example:

A **mango export company in Uttar Pradesh** sets up a **processing unit in an AEZ**. They use **packing credit** to procure fertilizers & pesticides for farmers. As a result, they **export high-quality mangoes** to the UAE at **competitive prices**.

🌍 Export Credit Insurance Whole Turnover Packing Credit (ECIB-WTPC)

🏦 What is ECIB-WTPC?

It is a insurance policy provided by the **Export Credit Guarantee Corporation of India (ECGC)** to protect banks against the risk of **non-payment or default by exporters** on their packing credit advances.

How It Works:

- **Banks provide packing credit (pre-shipment finance)** to exporters to fund raw material procurement, production, and packaging of export goods.
- **Banks obtain ECIB-WTPC coverage from ECGC** by paying a nominal **guarantee fee** (usually recovered from the exporter).
- **If the exporter defaults on the loan**, ECGC compensates the bank for the outstanding amount (up to a specified coverage limit).

🔹 Key Features of ECIB-WTPC

📌 Feature	🔍 Details
📅 **Coverage Period**	12 months
🛡️ **Risk Protection**	Covers banks against **protracted default** or **insolvency** of the exporter-client.
💰 **Coverage Percentage**	**First-time banks:** ✅ **75%** up to the fixed Grade Percentage limit and **65%** beyond it. **Other banks:** Between **55% to 75%**, depending on the **claim premium ratio**. **Small exporters/SMEs:** ✅ **90%**.
📜 **Monthly Declarations**	Banks must submit **monthly declarations** along with the **premium amount**.
📅 **Extension Beyond 360 Days**	Requires **ECGC approval**.

💡 Example:

A **textile exporter** in India secures a contract with a **European buyer**. The bank provides **packing credit**, covered under ECIB-WTPC. If the exporter **fails to pay** due to **insolvency**, the bank recovers **75% of the loss** through this insurance.

💰 Export Credit Against Proceeds of Cheques & Drafts

✅ When Can Banks Grant Credit?

Banks can provide **export credit** to exporters awaiting payment through **cheques, drafts, etc.** from foreign buyers **only if** the following conditions are met:

📌 Conditions	🔍 Requirements
📄 **Export Order Exists**	The cheque/draft corresponds to a **valid export order**.
🌎 **Trade Practice Compliance**	The mode of payment aligns with **standard international trade practices**.
🏦 **Approved Method**	The payment method complies with **extant RBI guidelines**.

🔹 **If a bank has granted accommodation at normal commercial interest rates**, it must **adjust the interest rate retrospectively** once all conditions are met and **refund the excess interest** to the exporter.

💵 Pre-Shipment Credit in Foreign Currency (PCFC)

🏦 What is PCFC?

The **Pre-Shipment Credit in Foreign Currency (PCFC)** facility allows exporters to **borrow in foreign currency** for purchasing **domestic and imported inputs** required for export.

🔹 Why is PCFC Important?

✅ Provides exporters with **internationally competitive rates**.

✅ Ensures **affordable financing** for production before shipment.

✅ Reduces dependency on **costlier rupee-based loans**.

💡 Example:

An **electronics exporter** in India takes a **PCFC loan in US dollars** to import **microchips from Japan**. When the export proceeds are received in USD, the exporter **settles the loan**, avoiding exchange rate fluctuations.

🔄 How Can Exporters Avail PCFC?

🏦 PCFC Option	🔍 Details
🔹 Pre-shipment credit in INR, post-shipment in INR or foreign currency	Exporters take rupee credit and settle it with INR or foreign currency export bills under the Rediscounting of Export Bills (EBR) Scheme.
🔹 Pre-shipment credit in foreign currency, post-shipment in foreign currency	Exporters take foreign currency credit and repay via export bill discounting under the EBR Scheme.
🔹 Pre-shipment credit in INR, then converted into PCFC	Initially rupee credit, later converted into foreign currency credit at the bank's discretion.

🌎 PCFC in Convertible Currencies

PCFC is available in the following **convertible currencies**:

💵 **US Dollar (USD)**

💷 **Pound Sterling (GBP)**

💴 **Japanese Yen (JPY)**

💶 **Euro (EUR)**

🔹 **Cross-currency risk** and **transaction costs** will be borne by the **exporter**.

🔹 Banks can **extend PCFC for exports to Asian Clearing Union (ACU) countries**.

🔍 Sources of PCFC Funds for Banks

📌 Source	🏦 Details
💰 **EEFC Accounts**	Funds from **Exchange Earners Foreign Currency (EEFC) Accounts**.
🏦 **RFC (D) & FCNR (B) Accounts**	Balances in **Resident Foreign Currency (RFC-D)** & **Foreign Currency Non-Resident (Banks) Scheme (FCNR-B)**.
💵 **Escrow & Exporters' Foreign Currency Accounts**	Available foreign currency balances.
🌍 **Foreign Borrowings**	Banks can raise **foreign lines of credit without RBI approval**.
🔄 **Inter-Bank Credit**	If foreign borrowing is unavailable, banks may **borrow from other Indian banks**.

⏳ PCFC Credit Period

📌 Time Frame	🕰️ Interest Rate
🔹 **Up to 180 days**	Banks **decide** the rate freely.
🔹 **Beyond 180 days (max: 360 days)**	Subject to **bank-specific terms**.

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📌 Time Frame	🕰️ Interest Rate
🔹 **Beyond 360 days**	PCFC must be **adjusted at T.T. selling rate** for the respective currency.

📦 Liquidation of PCFC Accounts

PCFC loans can be **settled using**:

✔️ **Export bill proceeds (discounting under EBR Scheme)**.

✔️ **Foreign currency loans (DP Bills)**.

✔️ **Balances in EEFC Accounts**.

✔️ **Rupee resources (if exports took place)**.

🚫 Special Cases of PCFC Liquidation

📌 Scenario	🔍 Resolution
🏗️ **Packing credit exceeding F.O.B. value**	Allowed **only for the exportable portion** (e.g., agro-products like **cashews, pepper, tobacco**).
🔄 **Substitution of export order/commodity**	Permitted if **commercially necessary & unavoidable**.
❌ **Cancellation of export order**	Exporter must **repay the loan + interest** by purchasing forex from the domestic market.

📌 Scenario	🔍 Resolution
🏦 **PCFC taken from an overseas bank**	The amount may be **remitted back** to the **foreign bank**.
🔍 **Exporter seeks future PCFC**	Banks can grant PCFC again if the previous **cancellation was due to genuine reasons**.

📊 Summary Table

🏦 Facility	📅 Loan Period	💰 Interest Rate	🔄 Repayment Method
🔹 **ECIB-WTPC**	12 months	Fixed by ECGC	Bank recovers insurance on default
🔹 **Export Credit Against Cheques**	Until realization	Regular export credit rate	From cheque proceeds
🔹 **PCFC (Pre-shipment Credit in Foreign Currency)**	Max **360 days**	Bank's discretion	Export bill proceeds, EEFC balances, or forex purchase
🔹 **PCFC Liquidation**	Upon export realization	Bank's discretion	EBR discounting, forex loans, EEFC balance

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