



## A STUDY OF RESERVE BANK OF INDIA (RBI) INITIATIVES WITH RESPECT TO EXPORT FINANCE

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## Abstract

The paper attempts to study the RBI initiatives with respect to Export financing schemes for boosting Indian Exports. It is of great importance that the country's exports be stepped up, so as to reduce the trade and current account deficits to sustainable levels. Apart from export incentives provided to exporters, RBI and the Government should also ensure that the exporters are provided credit facilities at a reasonable rate of interest. The paper covers the existing financing policies of the RBI and also focus on issues relating to various difficulties being faced by exporters with regard to availability of credit, factoring and other procedural issues in their dealings with banks and financial institutions.

**Keywords:** Export financing, RBI, factoring

The RBI first introduced the scheme of Export Financing in 1967. The scheme is intended to make short-term working capital finance available to exporters at internationally comparable interest rates. Under the earlier scheme in force upto June 30, 2010, RBI fixed only the ceiling rate of interest for export credit while banks were free to decide the rates of interest within the ceiling rates keeping in view the Benchmark Prime Lending Rate (BPLR) and spread guidelines and taking into account track record of the borrowers and the risk perception. In order to enhance transparency in banks' pricing of their loan products, banks were advised to fix their BPLR after taking into account actual cost of funds, operating expenses and a minimum margin to cover regulatory requirement of provisioning / capital charge and profit margin. However, the BPLR system, introduced in 2003, fell short of its original objective of bringing transparency to lending rates. This was mainly because under the BPLR system, banks could lend below BPLR. For the same reason, it was also difficult to assess the transmission of policy rates of the Reserve Bank to lending rates of banks. Accordingly, based on the recommendations of the Working Group on Benchmark Prime Lending Rate (Chairman: Shri Deepak Mohanty) banks were advised to switch over to the system of Base Rate w.e.f. July 1, 2010. The Base Rate System is aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy. Under the Base Rate System, applicable w.e.f. July 1, 2010, interest rates applicable for all tenors of rupee export credit advances are at or above Base Rate.

Existing credit structure for exporters<sup>1</sup> can be categorised as under

A. Rupee Export Credit	B. Export Credit in Foreign Currency
1. Pre-shipment Rupee Export Credit	1. Pre-shipment Export Credit in Foreign Currency
2. Post-shipment Rupee Export Credit	2. Post-shipment Export Credit in Foreign Currency
3. Interest on Rupee Export Credit	3. Interest on Export Credit in Foreign Currency

## Rupee Export Credit

**Pre-shipment Rupee Export Credit:** 'Pre-shipment/ Packing Credit' means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment/working capital expenses towards rendering of services on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods/ services from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgement of export orders or letter of credit with the bank has been waived.

**Period of Advance:** The period for which a packing credit advance may be given by a bank will depend upon the circumstances of the individual case, such as the time required for procuring, manufacturing or processing (where necessary) and shipping the relative goods / rendering of services. It is primarily for the banks to decide the period for which a packing credit advance may be given, having regard to the various relevant factors so that the period is sufficient to enable the exporter to ship the goods / render the services. If pre-

shipment advances are not adjusted by submission of export documents within 360 days from the date of advance, the advances will cease to qualify for prescribed rate of interest for export credit to the exporter *ab initio*.

**Disbursement of Packing Credit:** Banks may release the packing credit in one lump sum or in stages as per the requirement for executing the orders/LC.; Ordinarily, bank shall maintain a separate account of each packing credit sanctioned for the purpose of monitoring the period of sanction and end-use of funds; Banks may also maintain different accounts at various stages of processing, manufacturing etc. depending on the types of goods/ services to be exported e.g. hypothecation, pledge, etc., accounts and may ensure that the outstanding balance in accounts are adjusted by transfer from one account to the other and finally by proceeds of relative export documents on purchase, discount, etc.

**Liquidation of Packing Credit:** The packing credit/pre-shipment credit granted to an exporter may be liquidated out of proceeds of bills drawn for the exported commodities on its purchase, discount etc., thereby converting pre-shipment credit into post-shipment credit. Further, subject to mutual agreement between the exporter and the banker it can also be repaid / prepaid out of balances in Exchange Earners Foreign Currency A/c (EEFC A/c) as also from rupee resources of the exporter to the extent exports have actually taken place. If not so liquidated/ repaid, banks are free to decide the rate of interest from the date of advance.

**Post-shipment Rupee Credit:** 'Post-shipment Credit' means any loan or advance granted or any other credit provided by a bank to an exporter of goods/services from India from the date of extending credit after shipment of goods/rendering of services to the date of realization of export proceeds as per the period of realization prescribed by FED, and includes any loan or advance granted to an exporter, in consideration of, or on the security of any duty drawback allowed by the Government from time to time. As per the current instructions of FED, the period prescribed for realization of export proceeds is 12 months from the date of shipment.

**Types of Post-shipment Credits:** Post shipment advance can mainly take the form of - Export bills purchased/discounted/negotiated; Advances against bills for collection; Advances against duty drawback receivable from government.

**Liquidation of Post-shipment Credit:** Post-shipment credit is to be liquidated by the proceeds of export bills received from abroad in respect of goods exported / services rendered. Further, subject to mutual agreement between the exporter and the banker it can also be repaid / prepaid out of balances in Exchange Earners Foreign Currency Account (EEFC A/C) as also from proceeds of any other unfinanced (collection) bills.

**Interest on Rupee Export Credit:** General-For the period upto June 30, 2010, a ceiling rate had been prescribed for rupee export credit linked to Benchmark Prime Lending Rates (BPLRs) of individual banks available to their domestic borrowers. Banks had, therefore, freedom to decide the actual rates to be charged within the specified ceilings. The Base rate system is applicable w.e.f. July 1, 2010. Accordingly Interest rate applicable for all tenors of rupee export credit advances is

<sup>1</sup> DBOD No.DIR.BC.16/04.02.002/2013-14 July 1, 2013 Master Circular - Rupee / Foreign Currency Export Credit and Customer Service To Exporters



at or above Base Rate. ECNOS means Export Credit Not Otherwise Specified in the Interest Rate structure for which banks are free to decide rate of interest keeping in view the Base Rate/BPLR guidelines. Moreover, banks should not charge penal interest w.r.t ECNOS.

**Interest on Pre-shipment Credit:** Banks should charge interest on pre-shipment credit upto 270 days at the rate to be decided by the bank within the ceiling rate arrived at on the basis of BPLR relevant for the entire tenor of the export credit under the category. The period of credit is to be reckoned from the date of advance. This guideline is applicable upto June 30, 2010. The Base Rate System is applicable from July 1, 2010 and accordingly interest rates applicable for all tenors of rupee export credit advances sanctioned on or after July 01, 2010 are at or above Base Rate. If pre-shipment advances are not liquidated from proceeds of bills on purchase, discount, etc. on submission of export documents within 360 days from the date of advance, the advances will cease to qualify for prescribed rate of interest for export credit ab initio.

In cases where packing credit is not extended beyond the original period of sanction and exports take place after the expiry of sanctioned period but within a period of 360 days from the date of advance, exporter would be eligible for concessional credit only upto the sanctioned period. For the balance period, interest rate prescribed for 'ECNOS' at the pre-shipment stage will apply. Further, the reasons for non-extension of the period need to be advised by banks to the exporter. In cases where exports do not take place within 360 days from the date of pre-shipment advance, such credits will be termed as 'ECNOS' and banks may charge interest rate prescribed for 'ECNOS' pre-shipment from the very first day of the advance. If exports do not materialize at all, banks should charge on relative packing credit domestic lending rate plus penal rate of interest, if any, to be decided by the banks.

**Interest on Post-shipment Credit:** Early payment of export bills In the case of advances against demand bills, if the bills are realised before the expiry of the normal transit period (NTP), interest at the prescribed rate shall be charged from the date of advance till the date of realisation of such bills. The date of realisation of demand bills for this purpose would be the date on which the proceeds get credited to the banks' Nostro accounts. In the case of advance/credit against usance export bills, interest at prescribed rate may be charged only upto the notional/actual due date or the date on which export proceeds get credited to the bank's Nostro account abroad, whichever is earlier, irrespective of the date of credit to the borrower's/exporter's account in India. In cases where the correct due date can be established before/immediately after availment of credit due to acceptance by overseas buyer or otherwise, prescribed interest can be applied only upto the actual due date, irrespective of whatever may be the notional due date arrived at, provided the actual due date falls before the notional due date.

**Rupee Export Credit Interest Subvention:** The rupee export credit interest rate subvention scheme was formulated by the Government of India to alleviate the exporters' concerns for which operational instructions are issued by the Reserve Bank of India based on advice from the Ministry of Finance, Government of India. The sectors/sub-sectors to be included under the interest subvention facility are decided by the Government. In 2007, the Government of India announced a package of measures to provide interest rate subvention of 2 percentage points per annum on rupee export credit availed of by exporters in nine specified categories of exports, viz., textiles (including handlooms), readymade garments, leather products, handicrafts, engineering products, processed agricultural products, marine products, sports goods and toys and to all exporters from the SME sector defined as micro enterprises, small enterprises and medium enterprises for a period from

April 1, 2007 to September 30, 2008. Accordingly, banks will charge interest rate not exceeding BPLR minus 4.5/6.5 per cent, as applicable, on pre-shipment credit upto 180 days and post-shipment credit upto 90 days on the outstanding amount for the period April 1, 2007 to September 30, 2008. However, the total subvention will be subject to the condition that the interest rate, after subvention will not fall below 7 per cent which is the rate applicable to the agriculture sector under priority sector lending. With the change over to the Base Rate System, the interest rates applicable for all tenors of rupee export credit advances with effect from July 1, 2010 are at or above Base Rate in respect of all fresh/renewed advances as advised vide circular DBOD. Dir.(Exp). BC.No.102/04.02.001/2009-10 dated May 6, 2010. Accordingly, banks reduced the interest rate chargeable to exporters as per the base rate system in the above mentioned sectors eligible for export credit subvention by the amount of subvention available, subject to a floor rate of 7%. If, as a consequence, the interest rate charged to exporters goes below the Base Rate, such lending will not be construed to be a violation of the Base Rate guidelines.

Further, the Government of India has decided to increase the rate of interest subvention on the existing sectors from the present 2% to 3% with effect from August 1, 2013. Accordingly, banks may reduce the interest rate chargeable to the exporters as per Base Rate system in the existing sectors eligible for export credit subvention by the amount of subvention available subject to a floor rate of 7%. Banks may ensure to pass on the benefit of 3% interest subvention completely to the eligible exporters. The Government has introduced the Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit w.e.f. 01.04.2015 for 5 years. The scheme has been notified vide RBI circular No. 62 dated 04.12.2015. The scheme is available to all exports by manufacturers under 416 specified tariff lines and exports made by manufacturing Micro, Small and Medium Enterprises across all ITC (HS) Codes. The rate of interest equalisation is 3% per annum.

#### **Export Credit in Foreign Currency**

**Pre-shipment Credit in Foreign Currency (PCFC):** General - With a view to making credit available to exporters at internationally competitive rates, authorised dealers have been permitted to extend pre-shipment Credit in Foreign Currency (PCFC) to exporters for domestic and imported inputs of exported goods at Libor/Euro Libor/Euribor related rates of interest as detailed below: i. The scheme is an additional window for providing pre-shipment credit to Indian exporters at internationally competitive rates of interest. It will be applicable to only cash exports. The instructions with regard to Rupee Export Credit apply to export credit in Foreign Currency also mutatis mutandis, unless otherwise specified; ii. The exporter will have the following options to avail of export finance: a. to avail of pre-shipment credit in rupees and then the post-shipment credit either in rupees or discounting/ rediscounting of export bills under EBR Scheme mentioned in paragraph 6.1. b. to avail of pre-shipment credit in foreign currency and discount/rediscounting of the export bills in foreign currency under EBR Scheme. c. to avail of pre-shipment credit in rupees and then convert draws into PCFC at the discretion of the bank.

**Choice of currency:** The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc.; To enable the exporters to have operational flexibility, it will be in order for banks to extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. *For example*, an exporter can avail of PCFC in US Dollar against an export order invoiced in 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; The applicable benefit to the exporters will accrue only after the realisation of the export bills or when the resultant export bills are rediscounted on 'without recourse' basis.



Source of funds for banks: 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 could be utilised for financing the pre-shipment credit in foreign currency; Banks are also permitted to utilise the foreign currency balances available under Escrow Accounts and Exporters Foreign Currency Accounts for the purpose, subject to ensuring that the requirements of funds by the account holders for permissible transactions are met and the limit prescribed for maintaining maximum balance in the account under broad based facility is not exceeded; Foreign currency borrowings - In addition, banks may arrange for borrowings from abroad. Banks may negotiate lines of credit with overseas banks for the purpose of grant of PCFC to exporters without the prior approval of the RBI, provided the rate of interest on the borrowing does not exceed 250 basis points from November 15, 2011 (100 basis points upto November 14, 2011) over six months Libor/Euro Libor/ Euribor; Banks should draw on the line of credit arranged only to the extent of loans granted by them to the exporters under the PCFC. However, where the overseas bank making available the line of credit stipulates a minimum amount for drawals which should not be very large, the small unutilised portion may be managed by the bank within its foreign exchange position and Aggregate Gap Limit (AGL). Similarly, any pre-payment by the exporter may also be taken within the foreign exchange position and AGL limits. c. Banks may avail of lines of credit from other banks in India if they are not in a position to raise loans from abroad on their own, subject to the condition that ultimate cost to the exporter should not exceed 350 basis points from November 15, 2011 to May 4, 2012 (200 basis points upto November 14, 2011) above Libor/ Euro Libor / Euribor, provided the bank does not have a branch abroad. The spread between the borrowing and lending bank is left to the discretion of the banks concerned. Banks are free to determine the interest rates on export credit in foreign currency with effect from May 5, 2012; iv. In case the exporters have arranged for the suppliers' credit for procuring imported inputs, the PCFC facility may be extended by the banks only for the purpose of financing domestic inputs for exports; v. Banks are also permitted to use foreign currency funds borrowed in terms of para 4.2(i) of Notification No. FEMA.3/2000 RB dated May 3, 2000 as also foreign currency funds generated through buy-sell swaps in the domestic forex market for granting pre-shipment credit in Foreign Currency (PCFC) subject to adherence to Aggregate Gap Limit (AGL) prescribed by RBI (FED).

Spread: The spread for pre-shipment credit in foreign currency will be related to the international reference rate such as Libor/ Euro Libor/Euribor (6 months). The lending rate to the exporter should not exceed 350 basis points from November 15, 2011 to May 4, 2012 (200 basis points upto November 14, 2011) above Libor/Euro Libor/Euribor, excluding withholding tax. Banks are free to determine the interest rates on export credit in foreign currency with effect from May 5, 2012. i. Libor / Euro Libor / Euribor rates are normally available for standard period of 1, 2, 3, 6 and 12 months. Banks may quote rates on the basis of standard period if PCFC is required for periods less than 6 months. However, while quoting rates for non-standard period, banks should ensure that the rate quoted is below the next upper standard period rate; ii. Banks may collect interest on PCFC at monthly intervals against sale of foreign currency or out of balances in EEFC accounts or out of discounted value of the export bills if PCFC is liquidated. Period of credit: i. The PCFC will be available for a maximum period of 360 days. Any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit and it will also have additional interest

cost of 200 basis points above the rate for the initial period of 180 days prevailing at the time of extension. ii. 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. In such cases, banks can arrange to remit foreign exchange to repay the loan or line of credit raised abroad and interest without prior permission of RBI. iii. For extension of PCFC within 180 days, banks are permitted to extend on a fixed roll over basis of the principal amount at the applicable Libor/Euro Libor/Euribor rate for extended period plus permitted margin of 350 basis points from November 15, 2011 to May 4, 2012 (200 basis points upto November 14, 2011) above Libor/ Euro Libor / Euribor.

Banks are free to determine the interest rates on export credit in foreign currency with effect from May 5, 2012.

Disbursement of PCFC: i. In case full amount of PCFC or part thereof is utilised to finance domestic input, banks may apply appropriate spot rate for the transaction; ii. As regards the minimum lots of transactions, it is left to the operational convenience of banks to stipulate the minimum lots taking into account the availability of their own resources. However, while fixing the minimum lot, banks may take into account the needs of their small customers also; iii. Banks should take steps to streamline their procedures so that no separate sanction is needed for PCFC once the packing credit limit has been authorised and the disbursement is not delayed at the branches. Liquidation of PCFC Account: General - PCFC can be liquidated out of proceeds of export documents on their submission for discounting/rediscouting under the EBR Scheme detailed in para 6.1 or by grant of foreign currency loans (DP Bills). Subject to mutual agreement between the exporter and the banker, it can also be repaid / prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent exports have actually taken place. Packing credit in excess of F.O.B. value: In certain cases, (viz. agro based products like HPS groundnut, defatted & deoiled cakes, tobacco, pepper, cardamom, cashew nuts, etc.) where packing credit required is in excess of FOB value, PCFC would be available only for exportable portion of the produce.

Substitution of order/commodity: Repayment / liquidation of PCFC could be with export documents relating to any other order covering the same or any other commodity exported by the exporter or amount of balance in the EEFC Account. While allowing substitution of contract in this way, banks should ensure that it is commercially necessary and unavoidable. Banks should also satisfy about the valid reasons as to why PCFC extended for shipment of a particular commodity cannot be liquidated in the normal method. As far as possible, the substitution of contract should be allowed if the exporter maintains account with the same bank or it has the approval of the members of the consortium, if any.

Cancellation/non-execution of export order: In case of cancellation of the export order for which the PCFC was availed of by the exporter from the bank, 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. In such cases, interest will be payable on the rupee equivalent of principal amount at the rate applicable to ECNOS at pre-shipment stage plus a penal rate of interest from the date of advance after adjustment of interest of PCFC already recovered; 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; Banks may extend PCFC to such exporters subsequently, after ensuring that the earlier cancellation of PCFC was due to genuine reasons.



Running Account Facility for all commodities: 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, subject to the following conditions: a. The facility may be extended provided the need for 'Running Account' facility has been established by the exporters to the satisfaction of the bank; b. Banks may extend the facility only to those exporters whose track record has been good; c. In all cases, where pre-shipment credit 'Running Account' facility has been extended, the LCs or firm orders should be produced within a reasonable period of time; d. The PCFC will be marked-off on the 'First-in-First-Out' basis; e. PCFC can also be marked-off with proceeds of export documents against which no PCFC has been drawn by the exporter.

Banks should closely monitor the production of firm order or LC subsequently by exporters and also the end-use of funds. It has to be ensured that no diversion of funds is made for domestic use. In case of non-utilisation of PCFC draws for export purposes, the penal provisions stated above should be made applicable and the 'Running Account' facility should be withdrawn for the concerned exporter.

Banks are required to take any prepayment by the exporter under PCFC scheme within their foreign exchange position and Aggregate Gap Limit (AGL) as indicated in paragraph 5.1.3 (iii) (b) above. With the extension of 'Running Account' facility, mismatches are likely to occur for a longer period involving cost to the banks. Banks may charge the exporters the funding cost, if any, involved in absorbing mismatches in respect of the prepayment beyond one month period.

Forward Contracts: PCFC can be extended in any of the convertible currencies in respect of an export order invoiced in another convertible currency. Banks are also permitted to allow an exporter to book forward contract on the basis of confirmed export order prior to availing of PCFC and cancel the contract (for portion of drawal used for imported inputs) at prevailing market rates on availing of PCFC; Banks are permitted to allow customers to seek cover in any permitted currency of their choice which is actively traded in the market, subject to ensuring that the customer is exposed to exchange risk in a permitted currency in the underlying transaction; While allowing forward contracts under the scheme, banks may ensure compliance of the basic Foreign Exchange Management requirement that the customer is exposed to an exchange risk in the underlying transaction at different stages of the export finance.

#### Post-shipment Export Credit in Foreign Currency

Rediscounting of Export Bills Abroad Scheme (EBR): Banks may utilise 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.

Scheme: It will be comparatively easier to have a facility against bills portfolio (covering all eligible bills) than to have rediscounting facility abroad on bill by bill basis. There will, however, be no bar if rediscounting facility on bill to bill basis is arranged by a bank in case of any particular exporter, especially for large value transactions; Banks may arrange a "Bankers Acceptance Facility" (BAF) for rediscounting the export bills without any margin and duly covered by collateralised 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 direct subject to the following conditions: (a) Direct discounting of export bills by exporters with overseas bank and/or any other agency will be done only through the branch of an authorized dealer designated by him for this purpose; (b) Discounting of export bills will be routed through designated bank / authorized dealer from whom the packing credit facility has been availed of. In case, these are routed through any other bank, the latter will first arrange to adjust the amount outstanding under packing credit with the concerned bank out of the proceeds of the rediscounted bills. The limits granted to banks by overseas banks/discounting agencies under BAF will not be reckoned for the purpose of borrowing limits fixed by RBI (FED) for them.

Eligibility criteria: 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). There is, however, no bar to include demand bills, if overseas institution has no objection to it; 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; The facility under the Scheme of Rediscounting may be offered in any convertible currency; Banks are permitted to extend the EBR facility for exports to ACU countries; For operational convenience, the BAF Scheme may be centralised at a branch designated by the bank. There will, however, be no bar for other branches of the bank to operate the scheme as per the bank's internal guidelines / instructions.

**Interest on Export Credit in Foreign Currency:** Interest rate structure on Export Credit in Foreign Currency - In respect of export credit to exporters at internationally competitive rates under the schemes of 'Pre-shipment Credit in Foreign Currency' (PCFC) and 'Rediscounting of Export Bills Abroad' (EBR), banks are free to determine the interest rates on export credit in foreign currency with effect from May 5, 2012. However, up to May 4, 2012 banks may fix the rates of interest with reference to ruling Libor, Euro Libor Or Euribor, wherever applicable, as under:

Type of Credit	Interest Rate (% p.a)
<b>(i) Pre-shipment Credit</b>	
(a) Upto 180 days	Not exceeding 350 basis points over LIBOR/EUROLIBOR/EURIBOR
(b) Beyond 180 days and upto 360 days	Rate for initial period of 180 days prevailing at the time of extension plus 200 basis points
<b>(ii) Post-shipment Credit</b>	
(a) On demand bills for transit period	Not exceeding 350 basis points over LIBOR/EUROLIBOR/EURIBOR
(b) Against usance bills upto 6 months from the date of shipment	Not exceeding 350 basis points over LIBOR/EUROLIBOR/EURIBOR
(c) Export Bills (Demand or Usance) realized after due date but upto date of crystallization	Rate for (ii) (b) above plus 200 basis points

Note: i) Bank should not levy any other charges over and above the interest rate under any name viz. service charge; management charge etc. The practice of IBA fixing out of pocket expenses has been done away with effect from August 2012 and the decision to recover out of pocket expenses is left to individual banks. While recovering out of pocket expenses, banks should ensure that the charges are reasonable and on an actual cost basis; ii) Banks are free to decide the rate of interest, being the rupee credit rate, for pre-shipment and post-shipment credit beyond the tenors prescribed above, keeping in view the guidelines on Base Rate.

Recommended Policy Measures to Increase Cost-effective Finance: The Technical Committee (Chairman: Shri. G. Padmanabhan<sup>2</sup>) noted that exporters prefer foreign currency borrowings over Rupee financing for the following two reasons: due to natural hedge available for their export

<sup>2</sup> Report of the Technical Committee on Services/Facilities to Exporters, April 29, 2013 G. Padmanabhan

operations; and due to cost competitiveness of foreign currency funding vis-à-vis Rupee borrowings.

Currently, post-shipment credit can be rediscounted with overseas banks. Liabilities arising due to this rediscounting are not included for DL/NDTL computation for the purpose of CRR and SLR. In order to make available cost-effective export credit, the Committee recommends exemption of foreign currency borrowings, EEFC, FCNR(B) deposits, to the extent of export finance in foreign currency (pre and post shipment finance), from DTL/NDTL calculations, in order to eliminate the burden of CRR/SLR impact on cost of lending. Alternatively, exporters should be permitted to access foreign markets for their requirements directly (similar to trade credit availed for imports into India).

Export factoring is an international financial solution that releases cash within 24 hours of an invoice being raised, providing working capital to fund the business growth of exporters. The worldwide volume for factoring increased sharply in 2011 to reach a level of USD 2.6 trillion posting a growth of 22 percent over the previous year. The biggest factoring business growth has been witnessed in inter-Asian trade, including a remarkable growth of import factoring in markets such as China, Taiwan and Hong Kong. Globally, there are approximately 2,700 active factoring providers, which were advancing around \$300 billion to around 485,000 factoring clients. The five biggest traditional receivables finance markets remain the long established European countries: UK & Ireland (14.6%), Italy (8.93%), France (8.9%), Germany (8.02%) and Spain (5.72%). Asia, including the estimates for China and Taiwan, represented approximately 19 percent of turnover, followed by South America (8%), North America (5%), Australia and New Zealand (3%) and Africa and Middle East (2%).

Although the Factoring Regulation Act, 2011, has been passed in India, there are no clear operating guidelines for the banks. At present, purchase of non-LC bills by banks without recourse to the drawer is restricted. The Committee recommends that banks may be permitted to extend 'non-recourse' factoring, or 'limited recourse' factoring as 'with recourse' factoring may not be treated as true sale for assignor. Similarly, Annexure 5 of RBI Master Circular on Income Recognition and Asset Classification (IRAC) norms defines 'advances' as all kinds of credit facilities, including factored receivables. The Committee is of the view that in the event of receivables falling overdue, they should be treated as default of drawee and the same may be reported to CIBIL provided factoring is done on non-recourse or limited recourse basis. The assignor should be treated as defaulter only if factoring is done with recourse. Provisioning and asset classification of receivables should be in line with those applicable to loans and advances.

The Committee noted that Factoring is done on a non recourse basis in most of the markets and the Factoring companies are able to do this on the back of Credit Insurance. The Committee also noted that credit insurance facility was available for Factoring in India, until the recent past. In 2010, IRDA has issued a circular (No IRDA/NL/CIR/159/09/2010 dated 27th September 2010) preventing all General insurance Companies (except ECGC) to sell credit insurance to the Banks and NBFCs. As per IRDA, the cover under these policies appears to be in the nature of "credit default insurance", and therefore felt the need for "different regulatory treatment". The Committee further noted that credit insurance policy is still available to the exporters to cover the buyer risk; however, the said policy cannot be assigned or endorsed to any third party (Banks / Factoring Companies). The Committee felt that with the help of availability of Insurance, the exporters will be able

to secure financing. Hence, the Committee recommends IRDA to revisit the policy and permit issuance of credit insurance policy to the Factoring company. The Committee noted that the following benefits would accrue to the exporters in case of direct export factoring: Buyer risk covered (Protracted default & Insolvency); Non submission of Turnover declaration by exporter; Not to keep a track about insurance premium; No hassle of notification and claim lodgement with Insurance Company (on buyer default); No follow up with Insurance Company for renewal, new limits (buyer addition).

(NB: All the above activities are undertaken by the Factoring Company). The Committee observed that ECGC issues various types of policies to the exporter, but these policies are not assigned or endorsed to any third party. Due to non-assignment, the Factoring Company does not have any control over the policy. In view of this, the Committee recommends that ECGC should design a policy for Factoring companies for post-shipment financing, as the above circular of IRDA should not be applicable to ECGC. With the availability of ECGC cover to the Factoring Company, Exporter will also be benefited as both the facilities, such as financing and credit protection, will be made available under one single roof.

However, the Authorised Dealer (AD) licence issued by RBI to Factoring companies restricts the export factoring (cannot be done on a non-recourse basis). There are associations of International Factoring Companies, like Factors Chain International (FCI), International Factors Group (IFG), which help factoring companies/banks across the globe to conduct Factoring business.

#### Conclusion

It may be mentioned that RBI in accordance with the Government policies, over time, has liberalized and taken various steps provide various facilities and benefit of interest subvention to exporters, however, it has been receiving a number of representations from various trade bodies/individual exporters highlighting the difficulties being faced by them in getting timely, adequate and hassle-free flow of credit towards working capital, capital expenditure and other requirements of the sector. Among others it includes review of the existing policies/procedure relating to bank finance for exports and suggest measures to improve timely, adequate and hassle-free flow of credit towards working capital, capital expenditure and other requirements of the sector, and, in particular SME units; to evaluate and suggest ways for improving financial support to the export sector from alternative sources like factoring, interest subvention, export advance from the external sources etc.; to suggest measures to simplify and rationalize the existing procedures including the documentation, matters relating to transaction cost/transition period, to examine specifically the special needs of exporting units located in SEZ, requirements of merchanting trade, etc.

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