

MASTER CIRCULAR ON RUPEE / FOREIGN CURRENCY EXPORT CREDIT & CUSTOMER SERVICE TO EXPORTERS

A. Purpose

This Master Circular consolidates the instructions issued by Reserve Bank of India to Banks on Export Credit and Customer Service to exporters.

B. Classification

A statutory directive issued by the Reserve Bank in exercise of the powers conferred by Sections 21 and 35 A of the Banking Regulation Act, 1949.

C. Previous instructions consolidated

This Master Circular consolidates and updates all the instructions contained in the Circulars listed in the Appendix. .

D. Scope of Application

Applicable to all Scheduled Commercial Banks, excluding Regional Rural Banks.

INTRODUCTION

Export Credit Scheme

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. Export credit is available both in rupee as well as in foreign currency.

PART - A

RUPEE EXPORT CREDIT

1. PRE-SHIPMENT RUPEE EXPORT CREDIT

1.1 Rupee Pre-shipment Credit/Packing Credit

1.1.1 Definition

'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.

1.1.2 Period of Advance

- (i) 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.

(ii) 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*.

1.1.3 Disbursement of Packing Credit

(i) Ordinarily, each packing credit sanctioned should be maintained as separate account for the purpose of monitoring the period of sanction and end-use of funds.

(ii) Banks may release the packing credit in one lump sum or in stages as per the requirement for executing the orders / LC.

(iii) 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.

(iv) Banks should continue to keep a close watch on the end-use of the funds and ensure that credit at lower rates of interest is used for genuine requirements of exports. Banks should also monitor the progress made by the exporters in timely fulfillment of export orders.

1.1.4 Liquidation of Packing Credit

(i) General

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.

(ii) Packing credit in excess of export value

a) Where by-product can be exported

Where the exporter is unable to tender export bills of equivalent value for liquidating the packing credit due to the shortfall on account of wastage involved in the processing of agro products like raw cashew nuts, etc., banks may allow exporters, *inter alia*, to extinguish the excess packing credit by export bills drawn in respect of by-product like cashew shell oil, etc.

b) Where partial domestic sale is involved

However, in respect of export of agro-based products like tobacco, pepper, cardamom, cashew nuts etc., the exporter has necessarily to purchase a somewhat larger quantity of the raw agricultural produce and grade it into exportable and non-exportable varieties and only the former is exported. The non-exportable balance is necessarily sold domestically. For the packing credit covering such non-exportable portion, banks are required to charge the rate of interest applicable to the domestic advance from the date of advance of packing credit.

c) **Export of deoiled /defatted cakes**

Banks are permitted 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 though the value thereof exceeds the value of the export order. The advance in excess of the export order is 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.

(iii) Banks have, however, operational flexibility to extend the following relaxations to their exporter clients who have a good track record:

a) Repayment / liquidation of packing credit with proceeds of export documents will continue; however, this could be with export documents relating to any other order covering the same or any other commodity exported by the exporter. While allowing substitution of contract in this way, banks should ensure that it is commercially necessary and unavoidable. Banks should also satisfy themselves about the valid reasons as to why packing credit 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.

b) The existing packing credit may also be marked-off with proceeds of export documents against which no packing credit has been drawn by the exporter. However, it is possible that the exporter might avail of EPC with one bank and submit the documents to another bank. In view of this possibility, banks may extend such facility after ensuring that the exporter has not availed of packing credit from another bank against the documents submitted. If any packing credit has been availed of from another bank, the bank to which the documents are submitted has to ensure that the proceeds are used to liquidate the packing credit obtained from the first bank.

c) These relaxations **should not be extended** to transactions of sister / associate / group concerns.

1.1.5 'Running Account' Facility

(i) As stated earlier, pre-shipment credit to exporters is normally provided on lodgment of LCs or firm export orders. It is observed that the availability of raw materials is seasonal in some cases. In some other cases, the time taken for manufacture and shipment of goods is more than the delivery schedule as per export contracts. In many cases, the exporters have to procure raw material, manufacture the export product and keep the same ready for shipment, in anticipation of receipt of

letters of credit / firm export orders from the overseas buyers. Having regard to difficulties being faced by the exporters in availing of adequate pre-shipment credit in such cases, banks have been authorised to extend Pre-shipment Credit '**Running Account**' facility in respect of any commodity, without insisting on prior lodgement of letters of credit / firm export orders, depending on the bank's judgement regarding the need to extend such a facility and subject to the following conditions:

- (a) Banks may extend the 'Running Account' facility only to those exporters whose track record has been good as also to Export Oriented Units (EOUs)/ Units in Free Trade Zones / Export Processing Zones (EPZs) and Special Economic Zones (SEZs)
 - (b) In all cases where Pre-shipment Credit 'Running Account' facility has been extended, letters of credit / firm orders should be produced within a reasonable period of time to be decided by the banks.
 - (c) Banks should mark off individual export bills, as and when they are received for negotiation / collection, against the earliest outstanding pre-shipment credit on 'First In First Out' (FIFO) basis. Needless to add that, while marking off the pre-shipment credit in the manner indicated above, banks should ensure that export credit available in respect of individual pre-shipment credit does not go beyond the period of sanction or 360 days from the date of advance, whichever is earlier.
 - (d) Packing credit can also be marked-off with proceeds of export documents against which no packing credit has been drawn by the exporter.
- (ii) If it is noticed that the exporter is found to be abusing the facility, the facility should be withdrawn forthwith.
- (iii) In cases where exporters have not complied with the terms and conditions, the advance will not be treated as export credit *ab initio*.
- (iv) Running account facility should not be granted to sub-suppliers.

1.1.6 Export Credit against proceeds of cheques, drafts, etc. representing advance payment for exports

- (i) Where exporters receive direct remittances from abroad by means of cheques, drafts etc. in payment for exports, banks may grant export credit to exporters of good track record till the realisation of proceeds of the cheque, draft etc. received from abroad, after satisfying themselves that it is against an export order, is as per trade practices in respect of the goods in question and is an approved method of realisation of export proceeds as per extant rules.
- (ii) 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.

1.2 Rupee Pre-shipment Credit to specific sectors/segments

1.2.1 Rupee Export Packing Credit to manufacturer suppliers for exports routed through STC/MMTC/Other Export Houses, Agencies etc.

- (i) Banks may grant export packing credit to manufacturer suppliers who do not have export orders/letters of credit in their own name and goods are exported through the State Trading Corporation/Minerals and Metal Trading Corporation or other export houses, agencies etc.

1.2.2 Rupee Export Packing Credit to Sub-Suppliers

Packing credit can be shared between an Export Order Holder (EOH) and sub-supplier of raw materials, components etc. of the exported goods as in the case of EOH and manufacturer suppliers, subject to the following:

- (a) Running Account facility is not contemplated under the scheme. The scheme will cover the LC or export order received in favour of Export Houses/Trading Houses/Star Trading Houses etc. or manufacturer exporters only. The scheme should be made available to the exporters with good track record.
- (b) Bankers to an EOH will open an inland LC specifying the goods to be supplied by the sub-supplier to the EOH against the export order or LC received by him as a part of the export transaction. On the basis of such a LC, the sub-supplier's banker will grant EPC as working capital to enable the sub-supplier to manufacture the components required for the goods to be exported. On supplying the goods, the LC opening bank will pay to the sub-supplier's banker against the inland documents received on the basis of inland LC. Such payments will thereafter become the EPC of the EOH.
- (c) It is upto the EOH to open any number of LCs for the various components required with the approval of his banker/leader of consortium of banks within the overall value limit of the order or LC received by him. Taking into account the operational convenience, it is for the LC opening bank to fix the minimum amount for opening such LCs. The total period of packing credit availed by the sub-supplier (s), individually or severally and the EOH should be within normal cycle of production required for the exported goods. Normally, the total period will be computed from the date of first drawal of packing credit by any one of the sub-suppliers to the date of submission of export documents by EOH.
- (d) The EOH will be responsible for exporting the goods as per export order or overseas LC and any delay in the process will subject him to the penal provisions issued from time to time. Once the sub-supplier makes available the goods as per inland LC terms to the EOH, his obligation of performance under the scheme will be treated as complied with and the penal provisions will not be applicable to him for delay by EOH, if any.
- (e) The scheme is an additional window besides the existing system of sharing of packing credit between EOH and manufacturer in respect of exported goods as detailed in paragraph 1.2.1 above. The scheme will cover only the first stage of production cycle. *For example*, a manufacturer exporter will be allowed to open domestic LC in favour of his immediate suppliers of components etc. that are required for manufacture of exportable goods. The scheme will not be extended to cover suppliers of raw materials/components etc. to such immediate

suppliers. In case the EOH is merely a trading house, the facility will be available commencing from the manufacturer to whom the order has been passed on by the Trading House.

- (f) EOUs/EPZ/SEZ units supplying goods to another EOU/EPZ/SEZ unit for export purposes are also eligible for rupee pre-shipment export credit under this scheme. However, the supplier EOU/EPZ/SEZ unit will not be eligible for any post-shipment facility as the scheme does not cover sale of goods on credit terms.
- (g) The scheme does not envisage any change in the total quantum of advance or period. Accordingly, the credit extended under the system will be treated as export credit from the date of advance to the sub-supplier to the date of liquidation by EOH under the inland export LC system and upto the date of liquidation of packing credit by shipment of goods by EOH.. It has to be ensured that no double financing of the same leg of the transaction is involved.
- (h) Banks may approach the ECGC for availing suitable cover in respect of such advances.
- (i) The scheme does not envisage extending credit by a sub-supplier to the EOH/manufacturer and thus, the payment to sub-suppliers has to be made against submission of documents by LC opening bank treating the payment as EPC of the EOH.

1.2.3 Rupee Pre-shipment Credit to Construction Contractors

- (i) The packing credit advances to the construction contractors to meet their initial working capital requirements for execution of contracts abroad may be made on the basis of a firm contract secured from abroad, in a separate account, on an undertaking obtained from them that the finance is required by them for incurring preliminary expenses in connection with the execution of the contract e.g., for transporting the necessary technical staff and purchase of consumable articles for the purpose of executing the contract abroad, etc.
- (ii) The advances should be adjusted within 365 days from the date of advance by negotiation of bills relating to the contract or by remittances received from abroad in respect of the contract executed abroad. To the extent the outstanding in the account are not adjusted in the stipulated manner, banks may charge normal rate of interest applicable for working capital finance.
- (iii) The exporters undertaking project export contracts including export of services may comply with the guidelines/instructions issued by Reserve Bank of India, Foreign Exchange Department, Central Office, Mumbai from time to time.

1.2.4 Export of Services

Pre-shipment and post-shipment finance may be provided to exporters of all the 161 tradable services covered under the General Agreement on Trade in Services (GATS) where payment for such services is received in free foreign exchange as stated at Chapter 3 of the Foreign Trade Policy 2009-14. All provisions of this circular

shall apply mutatis mutandis to export of services as they apply to export of goods unless otherwise specified. A list of services is given in Appendix 10 of HBPv1. The financing bank should ensure that there is no double financing and the export credit is liquidated with remittances from abroad. Banks may take into account the track record of the exporter/overseas counter party while sanctioning the export credit. The statement of export receivables from such service providers may be tallied with the statement of payables received from the overseas party.

In view of the large number of categories of service exports with varied nature of business as well as in the environment of progressive deregulation where the matters with regard to micro management are left to be decided by the individual financing banks, the banks may formulate their own parameters to finance the service exporters.

Exporters of services qualify for working capital export credit (pre and post shipment) for consumables, wages, supplies etc.

Banks may ensure that –

- The proposal is a genuine case of export of services.
- The item of service export is covered under Appendix 10 of HBPv1.
- The exporter is registered with the Electronic and software EPC or Services EPC or with Federation of Indian Export Organisations, as applicable.
- There is an Export Contract for the export of the service.
- There is a time lag between the outlay of working capital expense and actual receipt of payment from the service consumer or his principal abroad.
- There is a valid Working Capital gap i.e. service is provided first while the payment is received some time after an invoice is raised.
- Banks should ensure that there is no double financing/excess financing.
- The export credit granted does not exceed the foreign exchange earned less the margins if any required, advance payment/credit received.
- Invoices are raised.
- Inward remittance is received in Foreign Exchange.
- Company will raise the invoice as per the contract. Where payment is received from overseas party, the service exporter would utilize the funds to repay the export credit availed of from the bank.

1.2.5 Pre-shipment Credit to Floriculture, Grapes and Other Agro-based Products

- i. In the case of floriculture, pre-shipment credit is allowed to be extended by banks for purchase of cut-flowers etc. and all post-harvest expenses incurred for making shipment.
- ii. However, with a view to promoting export of floriculture, grapes and other agro-based products, banks are allowed to extend credit for working capital purposes in respect of export-related activities of all agro-based products including purchase of fertilizers, pesticides and other inputs for

growing of flowers, grapes etc., provided banks are in a position to clearly identify such activities as export-related and satisfy themselves of the export potential thereof, and that the activities are not covered by direct/indirect finance schemes of NABARD or any other agency, subject to the normal terms & conditions relating to packing credit such as period, quantum, liquidation etc.

- iii. Export credit should not be extended for investments, such as, import of foreign technology, equipment, land development etc. or any other item which cannot be regarded as working capital.

1.2.6 Export Credit to Processors/Exporters - Agri-Export Zones

- i. Government of India has set up Agri-Export Zones in the country to promote Agri Exports. Agri- Export Oriented Units (processing) are set up in Agri-Export zones as well as outside the zones and to promote such units, production and processing are to be integrated. The producer has to enter into contract farming with farmers and has to ensure supply of quality seeds, pesticides, micro-nutrients and other material to the group of farmers from whom the exporter would be purchasing the products as raw material for production of the final products for export. The Government, therefore, suggested that such export processing units may be provided packing credit under the extant guidelines for the purpose of procuring and supplying inputs to the farmers so that quality inputs are available to them which in turn will ensure that only good quality crops are raised. The exporters will be able to purchase / import such inputs in bulk, which will have the advantages of economies of scale.
- ii. Banks may treat the inputs supplied to farmers by exporters as raw material for export and consider sanctioning the lines of credit/export credit to processors/exporters to cover the cost of such inputs required by farmers to cultivate such crops to promote export of agri products. The processor units would be able to effect bulk purchases of the inputs and supply the same to the farmers as per a pre-determined arrangement.
- iii. Banks have to ensure that the exporters have made the required arrangements with the farmers and overseas buyers in respect of crops to be purchased and products to be exported respectively. The financing banks will also appraise the projects in agri export zones and ensure that the tie-up arrangements are feasible and projects would take off within a reasonable period of time.
- iv. They are also to monitor the end-use of funds, viz. distribution of the inputs by the exporters to the farmers for raising the crops as per arrangements made by the exporter/main processor units.
- v. They have to further ensure that the final products are exported by the processors/exporters as per the terms and conditions of the sanction in order to liquidate the pre-shipment credit as per extant instructions.

2. POST-SHIPMENT RUPEE EXPORT CREDIT

2.1 Definition

'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 realisation of export proceeds. , 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.

2.1.1 Period of Realisation of Export Proceeds

The period of realization of export proceeds is determined by FED, banks are advised to adhere to the direction issued under Foreign Exchange Management Act, 1999, as amended from time to time.

2.2 Types of Post-shipment Credits

Post-shipment advance can mainly take the form of:

- (i) Export bills purchased/discounted/negotiated.
- (ii) Advances against bills for collection.
- (iii) Advances against duty drawback receivable from Government.

2.3 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. Such adjusted export bills should however continue to be followed up for realization of the export proceeds and will continue to be reported in the XOS statement.

In order to reduce the cost to exporters (i.e. interest cost on overdue export bills), exporters with overdue export bills may also extinguish their overdue post shipment rupee export credit from their rupee resources. However, the corresponding GR form will remain outstanding and the amount will be shown outstanding in XOS statement. The exporter's liability for realisation would continue till the export bill is realised.

2.4 Rupee Post-shipment Export Credit

2.4.1 Period

- i. In the case of demand bills, the period of advance shall be the Normal Transit Period (NTP) as specified by FEDAI.
- ii. In case of usance bills, credit can be granted for a maximum duration of 365 days from date of shipment inclusive of Normal Transit Period (NTP) and grace period, if any. However, banks should closely monitor the need for extending post-shipment credit upto the permissible period of 365 days and they should persuade the exporters to realise the export proceeds within a shorter period.
- iii. '**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, as prescribed by FEDAI from time to time.

It is not to be confused with the time taken for the arrival of goods at overseas destination.

iv. **An overdue bill**

- a. in the case of a demand bill, is a bill which is not paid before the expiry of the normal transit period, plus grace period and
- b. in the case of a usance bill, is a bill which is not paid on the due date.

2.4.2 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 percent of the FOB value of the contract, the residuary amount being 'undrawn balance' is payable by the overseas buyer after satisfying himself about the quality/ quantity of goods.

Payment of undrawn balance is contingent in nature. Banks may consider granting advances against undrawn balances based on their commercial judgement and the track record of the buyer.

2.4.3 Advances against Retention Money

- (i) In the case of turnkey projects/construction contracts, progressive payments are made by the overseas employer in respect of services segment of the contract, retaining a small percentage of the progressive payments as retention money which is payable after expiry of the stipulated period from the date of the completion of the contract, subject to obtention of certificate(s) from the specified authority.
- (ii) Retention money may also be sometimes stipulated against the supplies portion in the case of turn-key projects. It may like-wise arise in the case of sub-contracts. The payment of retention money is contingent in nature as it is a deferred liability.
- (iii) The following guidelines should be followed in regard to grant of advances against retention money:
 - a. No advances may be granted against retention money relating to services portion of the contract.
 - b. Exporters may be advised to arrange, as far as possible, provision of suitable guarantees, instead of retention money.
 - c. Banks may consider, on a selective basis, granting of advances against retention money relating to the supplies portion of the contract taking into account, among others, the size of the retention money accumulated, its impact on the liquid funds position of the exporter and the past performance regarding the timely receipt of retention money.
 - d. The payment of retention money may be secured by LC or Bank Guarantee where possible.

- e. Where the retention money is payable within a period of one year from the date of shipment, according to the terms of the contract, 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.
- f. Where the retention money is payable after a period of one year from the date of shipment, according to the terms of the contract and the corresponding advance is extended for a period exceeding one year, 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.

2.4.4 Export on Consignment Basis

(i) General

- a. Export on consignment basis lends scope for a lot of misuse in the matter of repatriation of export proceeds.
- b. Therefore, 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. Thus, in the case of exports on consignment basis, even if extension in the period beyond 365 days is granted by the Foreign Exchange Department (FED) for repatriation of export proceeds, banks will charge appropriate prescribed rate of interest only up to the notional due date (depending upon the tenor of the bills), subject to a maximum of 365 days.

(ii) Export of precious and semi-precious stones

Precious and semi-precious stones, etc. are exported mostly on consignment basis and the exporters are not in a position to liquidate pre-shipment credit account with remittances received from abroad within a period of 365 days from the date of advance. Banks may, therefore, adjust packing credit advances in the case of consignment exports, as soon as export takes place, by transfer of the outstanding balance to a special (post-shipment) account which in turn, should be adjusted as soon as the relative proceeds are received from abroad but not later than 365 days from the date of export or such extended period as may be permitted by Foreign Exchange Department, Reserve Bank of India.

2.4.5 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.

2.5 Post-shipment Advances against Duty Drawback Entitlements

2.5.1 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.

2.5.2 The advance against duty drawback receivables 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.

2.6 ECGC Whole Turnover Post-shipment Guarantee Scheme

2.6.1 The Whole Turnover Post-shipment Guarantee Scheme of the (ECGC) Ltd provides protection to banks against non-payment of post-shipment credit by exporters. Banks may, in the interest of export promotion, consider opting for the Whole Turnover Post-shipment Policy. The salient features of the scheme may be obtained from ECGC Ltd.

2.6.2 As the post-shipment guarantee is mainly intended to benefit the banks, the cost of premium in respect of the Whole Turnover Post-shipment Guarantee taken out by banks may be absorbed by the banks and not passed on to the exporters.

2.6.3 Where the risks are covered by the ECGC Ltd, banks should not slacken their efforts towards realisation of their dues against long outstanding export bills.

2.7 Export Credit - DTA to SEZ Units

As per para 7.1 (b) of the EXIM Policy announced on March 31, 2003, goods and services going in to Special Economic Zone area (SEZ) from Domestic Tariff Area (DTA) shall be treated as exports. It has, therefore, been decided that supply of goods and services from DTA to Special Economic Zone area would be eligible for export credit facilities

3. DEEMED EXPORTS - RUPEE EXPORT CREDIT

3.1 Banks are permitted to extend rupee pre-shipment and post-shipment rupee export credit to parties against orders for supplies in respect of projects aided/financed by bilateral or multilateral agencies/funds (including World Bank, IBRD, IDA), as notified from time to time by Department of Economic Affairs, Ministry of Finance under the Chapter "Deemed Exports" in Foreign Trade Policy, which are eligible for grant of normal export benefits by Government of India.

3.2 Packing Credit provided should be adjusted from free foreign exchange representing payment for the suppliers of goods to these agencies. It can also be repaid/prepaid out of balances in Exchange Earners Foreign Currency account (EEFC A/c), as also from the rupee resources of the exporter to the extent supplies have actually been made.

3.3 Banks may also extend rupee

- (i) pre-shipment credit, and
- (ii) post-supply credit (for a maximum period of 30 days or upto the actual date of payment by the receiver of goods, whichever is earlier),

For supply of goods specified as 'Deemed Exports' under the same Chapter of Foreign Trade Policy from time to time.

3.4 The post-supply advances would be treated as overdue after the period of 30 days. In cases where such overdue credits are liquidated within a period of 180 days from the notional due date (i.e. before 210 days from the date of advance), the banks are required to charge, for such extended period, interest prescribed for the category 'ECNOS' at post-shipment stage. If the bills are not paid within the aforesaid period of 210 days, banks should charge from the date of advance, the rate prescribed for 'ECNOS'-post-shipment.

4. INTEREST ON RUPEE EXPORT CREDIT

4.1 General

The Base Rate System is applicable with effect from July 1, 2010. Accordingly, interest rates applicable for all tenors of rupee export credit advances are at or above Base Rate.

4.2 Interest Rate on Rupee Export Credit

4.2.1 Interest Rate Structure

The Base Rate System is applicable with effect from July 1, 2010. 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.

4.2.2 Interest on Pre-shipment Credit

- i. 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.
- ii. 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, or as indicated at para 1.1.4 (i) the advances will not be treated as export credit ab initio.
- iii. If exports do not materialise 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 on the basis of a transparent policy approved by their Board.

4.2.3 Interest on Post-shipment Credit

Early payment of export bills

- i. 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.

- ii. 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.
- iii. Where interest for the entire NTP in the case of demand bills or upto notional/actual due date in the case of usance bills as stated at (b) above, has been collected at the time of negotiation/purchase/discount of bills, the excess interest collected for the period from the date of realisation to the last date of NTP/notional due date/actual due date should be refunded to the borrowers.

4.2.4 Interest on Post-shipment Credit Adjusted from Rupee Resources

Banks should adopt the following guidelines to ensure uniformity in charging interest on post-shipment advances which are not adjusted in an approved manner due to non-accrual of foreign exchange and advances have to be adjusted out of the funds received from the ECGC Ltd in settlement of claims preferred on them on account of the relevant export consignment:

- a. In case of exports to certain countries, exporters are unable to realise export proceeds due to non-expatriation of the foreign exchange by the Governments/Central Banking Authorities of the countries concerned as a result of their balance of payment problems even though payments have been made locally by the buyers. In these cases ECGC Ltd offer cover to exporters for transfer delays. Where ECGC Ltd have admitted the claims and paid the amount for transfer delay, banks may charge interest as applicable to 'ECNOS'-post-shipment even if the post-shipment advance may be outstanding beyond six months from the date of shipment. Such interest would be applicable on the full amount of advance irrespective of the fact that the ECGC Ltd admit the claims to the extent of 90 percent/75 percent and the exporters have to bring the balance 10 percent/25 percent from their own rupee resources.
- b. In a case where interest has been charged at commercial rate or 'ECNOS', if export proceeds are realised in an approved manner subsequently, the bank may refund to the borrower the excess amount representing difference between the quantum of interest already charged and interest that is chargeable taking into account the said realisation after ensuring the fact of such realisation with satisfactory evidence. While making adjustments of accounts it would be better if the possibility of refund of excess interest is brought to the notice of the borrower.

PART-B

EXPORT CREDIT IN FOREIGN CURRENCY

5. Pre-shipment Credit in Foreign Currency (PCFC)

5.1 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:

5.2 Scheme

- 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 drawals into PCFC at the discretion of the bank.
- iii. Choice of currency
 - a. The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc.
 - b. 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.
 - c. Banks are permitted to extend PCFC for exports to ACU countries.
 - d. 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.

5.3 Source of funds for banks

- i. 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.

- ii. 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.
- iii. Foreign currency borrowings
 - a. 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.
 - b. 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, 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.
 - c. 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.
- 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).

5.4 Spread

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

- iii. 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.

5.5 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.
- 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 free to determine the interest rates on export credit in foreign currency with effect from May 5, 2012.

5.6. Export Credit in Foreign Currency to Protect Exporters from Rupee Fluctuations

1. Banks extend export credit in Indian Rupees as well as in foreign currency, such as Pre Shipment Credit in Foreign Currency (PCFC) and Post Shipment Credit in Foreign Currency (PSCFC), as per their own internal lending policies within the overall regulatory framework prescribed by the Reserve Bank.

2 The export credit limits are calculated in Indian Rupees and the limit is apportioned between Rupee and foreign currency components depending upon the borrowers' requirement. While the overall export credit limits are fixed in Indian Rupees, the foreign currency component of export credit fluctuates based on the prevailing exchange rates.

3. It is observed that whenever there is a depreciation of Indian Rupee :

- i. the unavailed foreign currency component of export credit gets reduced;
- ii. the foreign currency component of export credit already availed gets revalued at a higher value in terms of Indian Rupees resulting in the exporter being asked to reduce their exposure by part payment or where the export credit limit is not fully disbursed, the available limit for the borrower reduces, depriving exporter of funds.

4. In above connection, a reference is invited to para 2.28 of the Report of the Technical Committee on Services / Facilities for Exporters (Chairman : Shri G. Padmanabhan) that the export finance limit is sanctioned by Indian banks, who revalue the foreign currency borrowings like PCFC and PSCFC on periodic (ranging from daily to monthly) basis, which results in notional excess utilization over and above the sanctioned limits in case of weakening Rupee. The Committee was of the view that denomination of facility in foreign currency would ensure that exporters are insulated from Rupee fluctuations.

5. Banks are advised that they may compute the overall export credit limits of the borrowers on an on-going basis say monthly, based on the prevalent position of current assets, current liabilities and exchange rates and re-allocate limit towards export credit in foreign currency, as per the bank's own policy. This may result in increasing or decreasing the Indian Rupee equivalent of foreign currency component of export credit.

6. Alternatively, banks may denominate foreign currency (FC) component of export credit in foreign currency only with a view to ensuring that the exporters are insulated from Rupee fluctuations. The FC component of export credit, sanctioned, disbursed and outstanding will be maintained and monitored in FC. However, for translation of FC assets in the banks' book, the on-going exchange / FEDAI rates may be used.

5.7 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.

5.8 Liquidation of PCFC Account

i. 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.

ii. 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.

iii. 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.

5.9 Cancellation/non-execution of export order

- i. 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.

- ii. 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.
- iii. Banks may extend PCFC to such exporters subsequently, after ensuring that the earlier cancellation of PCFC was due to genuine reasons.

5.10. Running Account Facility for all commodities

- i. 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.
- ii. 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 drawals for export purposes, the penal provisions stated above should be made applicable and the 'Running Account' facility should be withdrawn for the concerned exporter.
- iii. 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.

5.11 Forward Contracts

- i. In terms of paragraph 5.1.2 (iii) above, 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.
- ii. 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.
- iii. 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.

5.12 Sharing of EPC under PCFC

- i. The rupee export packing credit is allowed to be shared between an export order holder and the manufacturer of the goods to be exported. Similarly, banks may extend PCFC also to the manufacturer on the basis of the disclaimer from the export order holder through his bank.
- ii. PCFC granted to the manufacturer can be repaid by transfer of foreign currency from the export order holder by availing of PCFC or by discounting of bills. Banks should ensure that no double financing is involved in the transaction and the total period of packing credit is limited to the actual cycle of production of the exported goods.
- iii. The facility may be extended where the banker or the leader of consortium of banks is the same for both the export order holder and the manufacturer or, the banks concerned agree to such an arrangement where the bankers are different for export order holder and manufacturer. The sharing of export benefits will be left to the mutual agreement between the export order holder and the manufacturer.

5.13 Supplies from One EOU/EPZ/SEZ Unit to another EOU/EPZ/SEZ Unit

- i. PCFC may be made available to both, the supplier EOU/EPZ/ SEZ unit and the receiver EOU/EPZ/ SEZ unit.
- ii. The PCFC for supplier EOU/EPZ/SEZ unit will be for supply of raw materials/components of goods which will be further processed and finally exported by receiver EOU/ EPZ / SEZ unit.
- iii. The PCFC extended to the supplier EOU/EPZ/SEZ unit will have to be liquidated by receipt of foreign exchange from the receiver EOU/EPZ/SEZ unit, for which purpose, the receiver EOU/EPZ/SEZ unit may avail of PCFC.
- iv. The stipulation regarding liquidation of PCFC by payment in foreign exchange will be met in such cases not by negotiation of export documents but by

transfer of foreign exchange from the banker of the receiver EOU/EPZ/SEZ unit to the banker of supplier EOU/EPZ/SEZ unit. Thus, there will not normally be any post-shipment credit in the transaction from the supplier EOU/EPZ/SEZ unit's point of view.

- v. In all such cases, it has to be ensured by banks that there is no double financing for the same transaction. Needless to add, the PCFC to receiver EOU/EPZ/SEZ unit will be liquidated by discounting of export bills.

5.14 Deemed Exports

PCFC may be allowed for 'deemed exports' only for supplies to projects financed by multilateral/bilateral agencies/funds. PCFC released for 'deemed exports' should be liquidated by grant of foreign currency loan at post-supply stage, for a maximum period of 30 days or upto the date of payment by the project authorities, whichever is earlier. PCFC may also be repaid/ prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent supplies have actually been made.

5.15 Other aspects

- i. The applicable benefits such as credit of eligible percentage of export proceeds to EEFC Account etc. to the exporters will accrue only after realisation of the export bills and not at the stage of conversion of pre-shipment credit to post-shipment credit (except when bills are discounted/ rediscounted 'without recourse').
- ii. Surplus of export proceeds available after adjusting relative export finance and credit to EEFC account should not be allowed for setting off of import bills.
- iii. ECGC cover will be available in rupees only, whereas PCFC is in foreign currency.
- iv. For the purpose of reckoning banks' performance in extending export credit, the rupee equivalent of the PCFC may be taken into account.

5.16 Diamond Dollar Account (DDA) Scheme

Under the Foreign Trade Policy 2009-2014, firms/companies dealing in purchase/sale of rough or cut and polished diamonds, diamond studded jewellery, with good track record of at least two years in import or export of diamonds with an annual average turnover of Rs. 3 crore or above during the preceding three licensing years (from April to March) are permitted to carry out their business through designated Diamond Dollar Accounts (DDAs).

Under the DDA Scheme, it would be in order for banks to liquidate PCFC granted to a DDA holder by dollar proceeds from sale of rough, cut and polished diamonds by him to another DDA holder. (For details regarding the Diamond Dollar Accounts, bank may refer to [AP \(DIR series\) circular No.13 dated October 29, 2009](#) issued by Foreign Exchange Department of RBI)

6. Post-shipment Export Credit in Foreign Currency

6.1 Rediscounting of Export Bills Abroad Scheme (EBR)

6.1.1 General

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.

6.1.2 Scheme

- i. 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.
- ii. Banks may arrange a **"Bankers Acceptance Facility" (BAF)** for rediscounting the export bills without any margin and duly covered by collateralised documents.
- iii. 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).
- iv. 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.
- v. 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.

6.1.3 Eligibility criteria

- i. 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.

- ii. 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.
- iii. The facility under the Scheme of Rediscounting may be offered in any convertible currency.
- iv. Banks are permitted to extend the EBR facility for exports to ACU countries.
- v. 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.

6.1.4 Source of On-shore funds

- (i) In the case of demand bills [subject to what has been stated in paragraph 6.1.3 (i) above], these may have to be routed through the existing post-shipment credit facility or by way of foreign exchange loans to the exporters out of the foreign currency balances available with banks in the Schemes *ibid*.
- (ii) To facilitate the growth of local market for rediscounting export bills, establishment and development of an active inter-bank market is desirable. It is possible that banks hold bills in their own portfolio without rediscounting. However, in case of need, the banks should also have access to the local market, which will enable the country to save foreign exchange to the extent of the cost of rediscounting. Further, as different banks may be having BAF for varying amounts, it will be possible for a bank which has balance available in its limit to offer rediscounting facility to another bank which may have exhausted its limit or could not arrange for such a facility.
- (iii) 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 or they do not have branches abroad
- (iv) 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 facility of rediscounting of Export Bills Abroad (EBR) subject to adherence to Aggregate Gap Limit (AGL) approved by RBI (FED).

6.1.5 Facility of Rediscounting 'with recourse' and 'without recourse'

It is recognized that it will be difficult to get 'without recourse' facility from abroad under BAF or any other facility. Therefore, the bills may be rediscounted 'with recourse'. However, if an AD is in a position to arrange 'without recourse' facility on competitive terms, it is permitted to avail itself of such a facility.

6.1.6 Accounting aspects

- i. The rupee equivalent of the discounted value of the export bills will be payable to the exporter and the same should be utilised to liquidate the outstanding export packing credit.

- ii. As the discounting of bills/extension of foreign exchange loans (DP bills) will be in actual foreign exchange, banks may apply appropriate spot rate for the transactions.
- iii. The rupee equivalents of discounted amounts/foreign exchange loan may be held in the bank's books distinct from the existing post-shipment credit accounts.
- iv. In case of overdue bills, banks may charge interest from the due date to the date of crystallization as per the interest rate policy of the bank..
- v. Interest rate as per RBI interest rate directive for post-shipment credit in rupees will be applicable from the date of crystallisation.
- vi. In the event of export bill not being paid, it will be in order for the bank to remit the amount equivalent to the value of the bill earlier discounted, to the overseas bank/agency which had discounted the bill, without the prior approval of the RBI.

6.1.7 Restoration of limits and availability of export benefits such as EEFC Account

As stated in paragraph 6.1.5 above, 'without recourse' facility may not generally be available. Thus, the restoration of exporter's limits and the availability of export benefits, such as credit to EEFC accounts, in case of 'with recourse' facility, will be effected only on realisation of export proceeds and not on the date of discounting/rediscounting of the bills, However, if the bills are rediscounted 'without recourse', the restoration of exporter's limits and availability of export benefits may be given effect immediately on rediscounting.

6.1.8 ECGC cover

In the case of export bills rediscounted 'with recourse', there will not be any change in the existing system of coverage provided by ECGC Ltd as the liability of the exporter continues till the relative bill is retired/paid. In other cases, where the bills are rediscounted 'without recourse', the liability of ECGC ceases as soon as the relative bills are rediscounted.

6.1.9. Export credit performance

- (i) Only the bills rediscounted abroad 'with recourse' basis and outstanding will be taken into account for the purpose of export credit performance. The bills rediscounted abroad 'without recourse' will not count for the export credit performance.
- (ii) Bills rediscounted 'with recourse' in the domestic market could get reflected only in the case of the first bank discounting the bills as that bank alone will have recourse to the exporter and the bank rediscounting will not reckon the amount as export credit.

7. INTEREST ON EXPORT CREDIT IN FOREIGN CURRENCY

7.1 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.

PART -C

8. CUSTOMER SERVICE AND SIMPLIFICATION OF PROCEDURES

8.1 Customer Service

8.1.1 General

- i. Banks may provide timely and adequate credit and also render essential customer services/guidance in regard to procedural formalities and export opportunities to their exporter clients.
- ii. Banks should open Export Counsel Offices to guide exporters particularly the small ones and those taking up non-traditional exports.

8.1.2 Working Group to review Export Credit

As part of the on-going efforts to address various issues relating to customer service to exporters, the Reserve Bank of India had constituted a Working Group in May 2005, consisting of select banks and exporters' organizations to review Export Credit. The Group has come out with a comprehensive set of recommendations most of which have been accepted and communicated to banks. (**Annex 1**).

8.1.3 Gold Card Scheme for exporters

The Government (Ministry of Commerce and Industry), in consultation with RBI had indicated in the Foreign Trade Policy 2003-04 that a Gold Card Scheme would be worked out by RBI for creditworthy exporters with good track record for easy availability of export credit on best terms. Accordingly, in consultation with select banks and exporters, a Gold Card Scheme was drawn up. 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 mechanism in recognition of his good track record. The salient features of the Scheme are:

- i. All creditworthy exporters, including those in small and medium sectors, with good track record would be eligible for issue of Gold Card by individual banks as per the criteria to be laid down by the latter.
- ii. 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.
- iii. 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.
- iv. Gold Card holder exporters, depending on their track record and credit worthiness, will be granted better terms of credit including rates of interest than those extended to other exporters by the banks.
- v. Applications for credit will be processed at norms simpler and under a process faster than for other exporters.

- vi. Banks would clearly specify the benefits they would be offering to Gold Card holders.
- vii. 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.
- viii. The sanction and renewal of the limits under the Scheme will be based on a simplified procedure to be decided by the banks. Taking into account the anticipated export turnover and track record of the exporter the banks may determine need-based finance with a liberal approach.
- ix. 'In-principle' limits will be sanctioned for a period of 3 years with a provision for automatic renewal subject to fulfillment of the terms and conditions of sanction.
- x. 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 the case of exporters of seasonal commodities, the peak and off-peak levels may be appropriately specified.
- xi. In case of unanticipated export orders, norms for inventory may be relaxed, taking into account the size and nature of the export order.
- xii. 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.
- xiii. Gold Card holders would be given preference in the matter of granting of packing credit in foreign currency.
- xiv. Banks would consider waiver of collaterals and exemption from ECGC guarantee schemes on the basis of card holder's creditworthiness and track record.
- xv. The facility of further value addition to their cards through supplementary services like ATM, Internet banking, International debit / credit cards may be decided by the issuing banks.
- xvi. The applicable rate of interest to be charged under the Gold Card Scheme will not be more than the general rate for export credit in the respective bank. In keeping with the spirit of the Scheme, banks will endeavour to provide the best rates possible to Gold Card holders on the basis of their rating and past performance.
- xvii. Gold Card holders, 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.

- xviii. Banks may ensure that the PCFC requirements of the Gold Card holders are met by giving them priority over non-export borrowers with regard to granting loans out of their FCNR (B) funds, etc.
- xix. Banks will consider granting term loans in foreign currency in deserving cases out of their FCNR (B), RFC, etc. funds. (Banks may not grant such loans from their overseas borrowings under the 25 per cent window of overseas borrowings.)

8.1.4 Delay in crediting the proceeds of export bills drawn in foreign currency

Delays are observed in passing on the credit of export bills drawn in foreign currency to the exporters after the foreign currency amounts are credited to the 'Nostro' accounts of the banks.

Although there are instructions that the prescribed post-shipment interest rate will cease from the date of credit to the 'Nostro' account, the credit limits enjoyed by the exporters remain frozen till the actual date of credit of rupee equivalent to the account of the customer. There is, therefore, need to promptly restore the limit of the exporters on realisation of bills and pass on the rupee credit to the customer.

8.1.5 Payment of compensation to exporters for delayed credit of export bills

- i. In respect of the delay in affording credit in respect of credit advices complete in all respects, the compensation stipulated by FEDAI should be paid to the exporter client, without waiting for a demand from the exporter.
- ii. Banks should devise a system to monitor timely credit of the export proceeds to the exporter's account and payment of compensation as per FEDAI rules.
- iii. The internal audit and inspection teams of the banks should specifically comment on these aspects in the reports.

8.2 Sanction of export credit proposals

8.2.1 Time limit for sanction

The sanction of fresh/enhanced export credit limits should be made within 45 days from the date of receipt of credit limit application with the required details/information supported by requisite financial/operating statements. In case of renewal of limits and sanction of ad hoc credit facilities, the time taken by banks should not exceed 30 days and 15 days respectively, other than for Gold Card holders.

8.2.2 Ad hoc limit

At times, exporters require ad hoc limits to take care of large export orders which were not foreseen earlier. Banks should respond to such situations promptly. Apart from this, banks should adopt a flexible approach in respect of exporters, who for genuine reasons are unable to bring in corresponding additional contribution in respect of higher credit limits sought for specific orders. No additional interest is to be charged in respect of ad hoc limits granted by way of pre-shipment/post-shipment export credit.

In cases where the export credit limits are utilised fully, banks may adopt a flexible approach in negotiating the bills drawn against LCs and consider in such cases delegating discretionary/higher sanctioning powers to branch managers to meet the

credit requirements of the exporters. Similarly branches may also be authorized to disburse a certain percentage of the enhanced/ad hoc limits, pending sanction by the higher authorities/board/committee who had originally accorded sanctions to enable the exporters to execute urgent export orders in time.

8.2.3 Other requirements

- i. All rejections of export credit proposals should be brought to the notice of the Chief Executive of the bank explaining the reasons for rejection.
- ii. The internal audit and inspection teams of the banks should comment specifically on the timely sanction of export credit limits within the time schedule prescribed by RBI.
- iii. The export credit limits should be excluded for bifurcation of the working capital limit into loan and cash credit components.
- iv. Banks should nominate suitable officers as compliance officers in their foreign departments/specialized branches to ensure prompt and timely disposal of cases pertaining to exporters.
- v. It is necessary to submit a review note at quarterly intervals to the Board on the position of sanction of credit limits to exporters. The note may cover among other things, number of applications (with quantum of credit) sanctioned within the prescribed time-frame, number of cases sanctioned with delay and pending sanction explaining reasons therefor.

8.3 Simplification of procedure for delivery of export credit in foreign currency and in rupees

8.3.1 General

With a view to ensuring timely delivery of credit to exporters and removing procedural hassles, the following guidelines, applicable to rupee export credit as well as export credit in foreign currency, may be brought into effect.

8.3.2 Guidelines

- i. **Simplification of procedures**
 - a. Banks should simplify the application form and reduce data requirements from exporters for assessment of their credit needs, so that exporters do not have to seek outside professional help to fill in the application form or to furnish data required by the banks.
 - b. Banks should adopt any of the methods, viz. Projected Balance Sheet method, Turnover method or Cash Budget method, for assessment of working capital requirements of their exporter-customers, whichever is most suitable and appropriate to their business operations.
 - c. In the case of consortium finance, once the consortium has approved the assessment, member banks should simultaneously initiate their respective sanction processes.

ii. **'On line' credit to exporters**

- a. Banks provide 'Line of Credit' normally for one year which is reviewed annually. In case of delay in renewal, the sanctioned limits should be allowed to continue uninterrupted and urgent requirements of exporters should be met on ad hoc basis.
- b. In case of established exporters having satisfactory track record, banks should consider sanctioning a 'Line of Credit' for a longer period, say, 3 years, with in-built flexibility to step-up/step-down the quantum of limits within the overall outer limits assessed. The step-up limits will become operative on attainment of pre-determined performance parameters by the exporters. Banks should obtain security documents covering the outer limit sanctioned to the exporters for such longer period.
- c. In case of export of seasonal commodities, agro-based products, etc., banks should sanction Peak/Non-peak credit facilities to exporters.
- d. Banks should permit interchangeability of pre-shipment and post-shipment credit limits.
- e. Term Loan requirements for expansion of capacity, modernization of machinery and up gradation of technology should also be met by banks at their normal rate of interest.
- f. Assessment of export credit limits should be 'need based' and not directly linked to the availability of collateral security. As long as the requirement of credit limit is justified on the basis of the exporter's performance and track record, the credit should not be denied merely on the grounds of non-availability of collateral security.

iii. **Waiver of submission of orders or LCs for availing pre-shipment credit.**

- a. Banks should not insist on submission of export order or LC for every disbursement of pre-shipment credit, from exporters with consistently good track-record. Instead, a system of periodical submission of a statement of LCs or export orders in hand should be introduced.
- b. Banks may waive, *ab initio*, submission of order/LC in respect of exporters with good track record and put in place the system of obtaining periodical statement of outstanding orders/LCs on hand. The same may be incorporated in the sanction proposals as well as in the sanction letters issued to exporters and appropriately brought to the notice of ECGC. Further, if such waivers are permitted at a time subsequent to sanction of export credit limits with the approval of the appropriate authority, the same may be incorporated in the terms of sanction by way of amendments and communicated to ECGC.

iv. **Handling of export documents**

Banks are required to obtain, among others, original sale contract/confirmed order / proforma invoice countersigned by overseas buyer / indent from

authorized agent of overseas buyer for handling the export documents as per Foreign Exchange Management regulations. Submission of such documents need not be insisted upon at the time of handling the export documents, since the goods have already been valued and cleared by the Customs authorities, except in the case of transactions with Letters of Credit (LC) where the terms of LC require submission of the sale contract / other alternative documents.

v. **Fast track clearance of export credit**

- a. At specialized branches and branches having sizeable export business, a facilitation mechanism for assisting exporter-customers should be put in place for quick initial scrutiny of credit application and for discussions for seeking additional information or clarifications.
- b. Banks should streamline their internal systems and procedures to comply with the stipulated time limits for disposal of export credit proposals and also endeavour to dispose of export credit proposals ahead of the prescribed time schedule. A flow chart indicating chronological movement of credit application from the date of receipt till the date of sanction should also accompany credit proposals.
- c. Banks should delegate higher sanctioning powers to their branches for export credit.
- d. Banks should consider reducing at least some of the intervening layers in the sanctioning process. It would be desirable to ensure that the total number of layers involved in decision-making in regard to export finance does not exceed three.
- e. Banks should introduce a system of 'Joint Appraisal' by officials at branches and administrative offices, to facilitate quicker processing of export credit proposals.
- f. Where feasible, banks should set up a 'Credit Committee' at specialized branches and at administrative offices, for sanctioning working capital facilities to exporters. The 'Credit Committee' should have sufficiently higher sanctioning powers.

vi. **Publicity and training**

- a. Generally, export credit at internationally competitive rates is made available in foreign currency at select branches of banks. In order to make the scheme more popular and considering the competitive interest rate on foreign currency loans and to mitigate any possible exchange risk, exporters need to be encouraged to make maximum use of export credit in foreign currency. Banks located in areas with concentration of exporters should, therefore, give wide publicity to this important facility and make it easily accessible to all exporters including small exporters and ensure that more number of branches are designated for making available export credit in foreign currency.

- b. Banks may also arrange to publicise widely the facility of prescribed interest rates being available for deemed exports and ensure that operating staff are adequately sensitized in this regard.
- c. Officers at operating level should be provided with adequate training. In the matter of transfer of officials from critical branches dealing in export credit, banks should ensure that the new incumbents posted possess adequate knowledge/ exposure in the areas of forex as well as export credit to avoid delays in processing/sanctioning of export credit limits and thereby subjecting exporters to the risk of cancellation of export orders.

vii. **Customer Education**

- a. Banks should bring out a Hand Book containing salient features of the simplified procedures for sanction of export credit in Foreign Currency at internationally competitive rates as well as in Rupees for the benefit of their exporter-clients.
- b. To facilitate interaction between banks and exporters, banks should periodically organise Exporters' Meet at centres with concentration of exporters.

8.3.3 Monitoring implementation of guidelines

- i. Banks should ensure that exporters' credit requirements are met in full and promptly at competitive rates. The above referred guidelines must be implemented, both in letter and spirit, so as to bring about a perceptible improvement in credit delivery and related banking services to export sector. Banks should also address the deficiencies, if any, in the mechanism of deployment of staff in their organisations to eliminate the bottlenecks in the flow of credit to the export sector.
- ii. Banks should set up an internal team to visit branches periodically, say, once in two months to gauge the extent of implementation of the Guidelines.

9. Pre-shipment credit to Diamond Exporters - Conflict Diamonds - Implementation of Kimberley Process Certification Scheme (KPCS)

Trading in conflict diamonds has been banned by U. N. Resolutions Nos. 1173 and 1176 as the conflict diamonds play a large role in funding the rebels in the civil war torn areas of Sierra Leone. There is also a Prohibition on the direct / indirect import of all rough diamonds from Sierra Leone and Liberia in terms of UN Resolution No. 1306(2000) and 1343(2001) respectively. India, among other countries, has adopted a UN mandated new Kimberley Process Certification Scheme to ensure that no rough diamonds mined and illegally traded enter the country. Therefore, import of diamonds into India should be accompanied by Kimberley Process Certificate (KPC). Similarly, exports from India should also be accompanied by the KPC to the effect that no conflict/ rough diamonds have been used in the process. The KPCs would be verified/validated in the case of imports/ exports by the Gem and Jewellery Export Promotion Council. In order to ensure the implementation of Kimberley Process Certification Scheme, banks should

obtain an undertaking in the format given in **Annex 2** from such of the clients who have been extended credit for doing any business relating to diamonds.