



# Module-A Unit-5

## CAIIB PAPER-2

### **BANK Financial Management(BFM)**

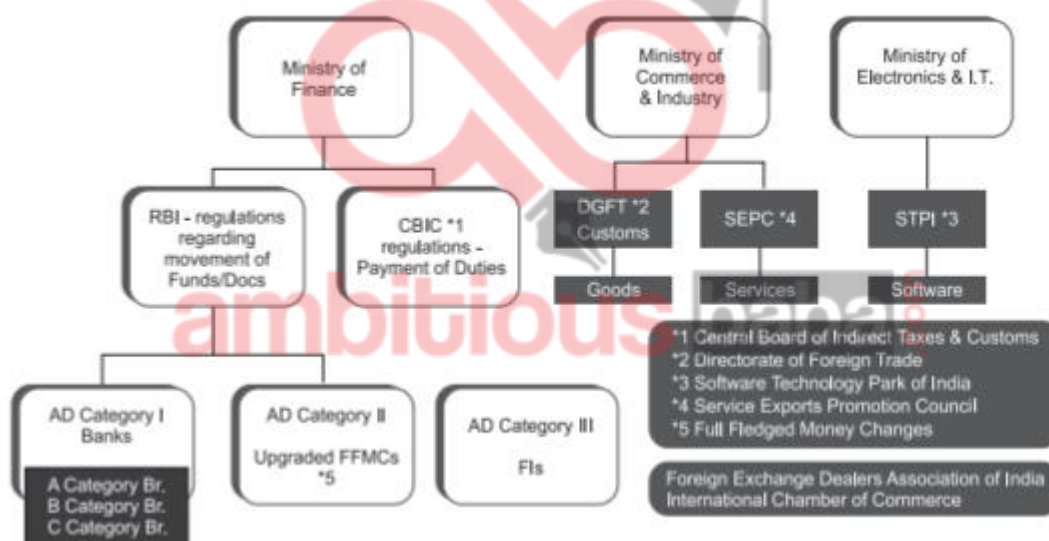


## CAIIB BFM Module A Unit 5: Facilities for Exporters and Importers

### Introduction

In India, export trade is regulated by the Directorate General of Foreign Trade (DGFT), which functions under the Ministry of Commerce and Industries, of Government of India. While the policies and procedures granted under FEMA regulations are governed by the RBI regulations/guidelines. Similarly, import trade is also governed by DGFT, with regulations relating to imports and other payments, as provided under FEMA, are governed by RBI regulations.

Exchange Control regulations as well as Imports and Exports Trade Control regulations are applicable to all transactions related to international trade. **The Reserve Bank of India, with powers delegated under FEMA 1999, regulates the Exchange Control and receipts/payments of foreign exchange part through various guidelines, FEMA amendments, while the office of the Director General of Foreign Trade (DGFT), regulates the Trade Control part, through the EXIM Policy and periodic announcements with a view to expand or control the international business of the country.**



### Exchange and Trade Control Guidelines For Exporters

#### Importer-Exporter Code Number

Every person/firm/company engaged in Export-Import trade has to apply for and obtain an importer exporter Code Number (IEC Number) from the Director General of Foreign Trade (DGFT). This is a registration number of the firm/company for international trade and the exporter/importer has to invariably quote this code number in all declarations/forms, etc., a few of which are explained below:

#### Export Declaration Forms

**Section 7(1), (3) of FEMA**, all export of goods from India, **whether in physical form or any other form**, requires to be declared in the prescribed forms to the effect that full value of exports will be realized within the prescribed period and in the prescribed manner. The prescribed forms are EDF and SOFTEX forms which are used for the purposes noted below:

(i) EDF Form :	Exports other than software made by all modes.
(ii) SOFTEX Form :	Export of software in non-physical form. With the introduction of Electronic Data Interchange (EDI) system at certain Customs offices, where shipping bills are processed electronically, the GR form has since been replaced by a declaration in form EDF (Electronic Declaration Form). The EDF form should be submitted in duplicate (to be annexed to the relative shipping bill) to the concerned Commissioner of Customs. After verifying and authenticating the declaration in form EDF, the commissioner of customs will handover to the exporter one copy of the shipping bill marked 'Exchange Control Copy' in which form EDF has been approved for being submitted to the authorized dealer.

### Exemptions

Following exports/shipments out of India are exempted from Export Declaration Forms, **in terms of the cases indicated in Regulation 4 of Foreign Exchange Management (Export of Goods and Services) Regulations dated January 12, 2016:**

- (a) Trade samples of goods and publicity material supplied free of payment;
- (b) Personal effects of travellers, whether accompanied or unaccompanied;
- (c) Ship's stores, trans-shipment cargo and goods supplied under the orders of Central Government of such officers as may be appointed by the Central Government in this behalf or of the military, naval or air force authorities in India for military, naval or air force requirements;
- (d) By way of gift of goods accompanied by a declaration by the exporter that they are not more than five lakh rupees in value;
- (e) Aircrafts or aircraft engines and spare parts for overhauling and/or repairs abroad subject to their reimport into India after overhauling/repairs, within a period of six months from the date of their export;
- (f) Goods imported free of cost on re-export basis;

(g) The following goods which are permitted by the Development Commissioner of the Special Economic Zones, Electronic Hardware Technology Parks, Software Technology Parks or Free Trade Zones to be re-exported, namely:

- Imported goods found defective, for the purpose of their replacement by the foreign suppliers/ collaborators;
- Goods imported from foreign suppliers/collaborators on loan basis;
- Goods imported from foreign suppliers/collaborators free of cost, found surplus after production operations

goods listed at items (1), (2) and (3) of clause (i) to be re-exported by units in Special Economic Zones, under intimation to the Development Commissioner of Special Economic Zones/concerned Assistant Commissioner or Deputy Commissioner of Customs;

(h) replacement goods exported free of charge in accordance with the provisions of Foreign Trade Policy in force, for the time being;

(i) goods sent outside India for testing subject to re-import into India;

(j) defective goods sent outside India for repair and re-import provided the goods are accompanied by a certificate from an authorised dealer in India that the export is for repair and re-import and that the export does not involve any transaction in foreign exchange;

(k) exports permitted by the Reserve Bank, on application made to it, subject to the terms and conditions, if any, as stipulated in the permission.

### Prescribed Time Limits

#### For Submission of Export Documents

- **The exporter is required to submit the export documents, along with the duplicate/exchange control copy of EDF form within 21 days from the date of export, or from the date of certification of the SOFTEX form:** to an authorised dealer, for collection, purchase, discount or negotiation, as the case may be, provided that, subject to the directions issued by the Reserve Bank from time to time, the authorized dealer may accept the documents pertaining to export submitted after the expiry of the specified period of 21 days, for reasons beyond the control of the exporter.

#### For Realisation of Export Bills

**It is obligatory on the part of the exporter that the amount of exports is realized and repatriated into India, within the stipulated time period.**

The amount representing the full export value of goods/software/services exported shall be realised and repatriated to India within **nine months** from the date of export.

- The Reserve Bank may for reasonable and sufficient cause direct that the said exporter/s shall cease to be governed by sub-regulation (2);
- Provided that no such direction shall be given unless the unit has been given a reasonable opportunity to make a representation in the matter.
- On such direction, the said exporter/s shall be governed by the provisions of sub-regulation (1) until directed otherwise by the Reserve Bank.

### Prescribed Method of Payment

The amount representing the full export value of the goods exported shall be received through an AD Bank in the manner specified in the Foreign Exchange Management (Manner of Receipt & Payment) Regulations, 2016 notified vide Notification No. FEMA.14 (R)/2016-RB dated May 02, 2016. Every receipt in foreign exchange by an authorized dealer, whether by way of remittance from a foreign country or by way of reimbursement from his branch or correspondent outside **India against payment for export from India, or against any other payment, shall be as mentioned below:**

- Form of bank draft, pay order, credit to Exporter Bank's Nostro account, Inward Remittance, etc.
- Foreign currency notes, travellers checks from the buyer.
- Payment out of FCNR, NRE account of the buyer.
- Through International credit cards, when goods are sold during the overseas visit of the exporter concerned.
- In Indian rupees, when transaction are with persons resident in Nepal.
- In the form of gold/silver/platinum by gem and jewellery units situated in SEZs, provided the contract provides for the same.

### Facilities for Exporters - Facilities/Remittances Connected With Exports

#### Agency Commission on Exports

Agency commission can be allowed either by remittance or deduction from invoice value by the ADS subject to the condition that:

- it has been declared in the relative EDF/SOFTEX form, and accepted by the customs authorities, and that the relative shipment has already been made. In cases where the commission has not been declared on EDF/SOFTEX form, remittance may be allowed after satisfying the reasons adduced by the exporter for not declaring commission on Export Declaration Form, provided a valid agreement/written understanding between the exporters and/or beneficiary for payment of commission exists.
- The relative shipment has already been made.

#### Reduction in Invoice Value

- **Exporters may allow reduction in invoice value, on account of cash discount to overseas buyers, for prepayment of usance bills.** The discount can be allowed for the unexpired period at the stipulated rate of interest or a LIBOR of the currency.

### Claims Against Exports

- Banks can allow claims against export bills, provided the relative export proceeds have been realized and repatriated to India, and the exporter is not in the caution list of the Reserve Bank of India.

### Refund of Export Proceeds

- Refund of export proceeds can be allowed by the AD, through whom the proceeds of the export bill were originally received, provided the exporter has submitted the evidence of re-import of goods into India on account of poor quality, trade dispute, etc.

### Extension of Time Limit

- **If the export bill is not realized within the prescribed period, for reasons beyond control,** the exporter is required to make an application in form ETX to the AD, which has handled the export bill, and seek extension of time limit for realization of export proceeds.

### Write off of unrealized export bills

- An exporter who has not been able to realize the outstanding export dues despite best efforts, may either self-write off or approach the AD Category - I banks, who had handled the relevant shipping documents, with appropriate supporting documentary evidence.
- RBI has prescribed limits and conditions for self write off as well as write off by A.D.s, which should be adhered to

### Effective Date of Realization

- In terms of FEDAI rules, the effective date of realization of an export bill is the date of credit in the bank's '**NOSTRO**' account in case of **Foreign Currency bills**, and in case of Rupee bills the effective date of realisation is the date of **debit in the 'VOSTRO' account.**
- As such, in case of foreign currency bills, the value date of credit is taken as the date of credit and interest charged up to this date on advance allowed against the particular export bill.

### Foreign Currency Accounts

- Overseas Foreign Currency Account
- Diamond Dollar Account (DDA)

- EEFC Account

## **Export Finance**

**The Reserve Bank of India has framed specific guidelines for finance to exporters, so as to allow finance at concessional interest rates,** to make exporters compete with their competitors from other countries, and also to boost the exports from the country. **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.

The Reserve Bank of India has also permitted banks to allow both Packing credits as well as post-shipment advances to exporters in Indian rupees as well as in foreign currencies.

Let us see the rules related to rupee advances first, before going to the foreign currency export credit to exporters.

***Pre-shipment finance can be of two types:***

- Packing Credit (EPC or PCL).
- Advance against Govt. receivables, i.e. Duty Drawback, etc.

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

- Export bills purchased/discounted/negotiated (FBP/FBD/FBN).
- Advance against bills sent on collection.
- Advances against exports on consignment basis.
- Advances against undrawn balances.
- Advances against Duty Drawback.

### **Pre-Shipment Finance**

**As given above, pre-shipment finance, generally known as Packing Credit Loan (PCL) or Export Packing Credit (EPC),** is essentially a working capital advance allowed for the specific purpose of procuring/ processing/manufacturing of goods meant for export. It could cover all costs prior to shipment of finished goods, i.e. packing, local transportation, labour charge, etc.

#### **A. Pre-sanction**

- The borrower is bank's customer.
- They should have Export/Import Code number (IEC) allotted by Director General of Foreign Trade.
- Their name should not appear under the caution list of RBI.
- They should not be under the Specific Approval list of ECGC.

- They have the capacity to execute the order within stipulated time and has a genuine and valid export order or Letter of Credit for export of goods.
- All 'Know Your Customer' guidelines are complied with.

### **B.Post-sanction**

- No PCL has been availed by him against the same order/LC from any other bank. For this reason only, the Bank which has granted the Pre-Shipment facility should note the fact of its credit facility on the reverse side of the original LC or original Contract so that it is a warning to any other bank which is handling the exporter's documents.
- Bank should call for Credit Report/Status Reports on the foreign buyers.
- The exporter should submit stock statements for the goods on which PCL has been allowed.
- If the exports are covered under letters of credits, banks would need to be satisfied about the standing of the credit opening bank.
- Banks may also look into the regulations, the political and financial conditions of the buyer's country.

### **C.Special Cases for allowing Packing Credit Advances**

**(a)** Packing credits can be allowed to sub-suppliers also at the first stage under the Rupee credit scheme. Packing credit can be granted on the basis of the inland LC opened by a bank at the request of the Export Order holder.

**(b)** Banks have been authorized to grant pre-shipment advances for exports of any commodity without insisting on prior lodgment of letters of credit/firm export orders under 'Running Account' facility subject to the following conditions:

- The facility may be extended, provided the need for 'Running Account' facility has been established by the exporters to the satisfaction of the bank.
- The banks may extend the 'Running Account' facility only to those exporters whose track record is good.

### **Post-Shipment Finance**

**Post-shipment finance is essentially an advance against receivables, which are in the form of export.** It Post Shipment Finance involves handling of export documents, sending the documents to the foreign bank and collecting the funds thereof. involves handling of exports, sending it to the foreign bank/buyer and collecting proceeds thereof.

The responsibility of an AD is increased in the post-shipment part, since the realisation of export proceeds of the export bills is monitored by the Reserve Bank of India.

### **A.Export bills purchased/discounted**

- The export bills, representing genuine trade transactions, strictly drawn in terms of the sale contract firm contract/order may be discounted or purchased by the banks, against proper sanctioned limits.
- The bills drawn on sight basis, i.e. Documents against Payment, are purchased and those drawn on usance i.e. Documents against Acceptance basis, are discounted by the bank.

### **B.Export bills negotiated**

- **Negotiation of documents takes place, when export documents, drawn under Letter of Credit**, are presented to the bank and financed by the bank. These documents should be scrutinized carefully with the terms and conditions of the LC, before negotiation, since the LC issuing bank undertakes to honour its commitment to pay/accept/reimburse, only, if the beneficiary submits the stipulated documents conforming to terms of LC.
- Further, as the operation of Letter of Credit is governed by Uniform Customs & Practices for Documentary Credits (2007 Revision) of the International Chamber of Commerce.

### **C.Advances against bills sent on collection basis**

- In some cases the bills will be sent on collection basis, either when the export credit limits are fully utilized, or in cases when the bills, drawn under LC, are discrepant or even when, the exporter himself requests for sending the bills on collection basis, in order to delay the realisation in anticipation of the strengthening of the foreign currency.

### **D.Advances against exports on consignment basis**

- Goods are exported on consignment basis for approval and sale abroad and remittance of sale proceed by agent/consignee at the risk of the exporters. Under such type of exports, the sale proceeds are remitted for the part of goods sold, and in case of unsold goods, goods are sent back to the exporter.
- The overseas branch/correspondent of the bank is instructed to deliver the documents to title of goods, to the consignee, against Trust Receipt.

### **E.Advances against undrawn balances**

**In certain line of export trade, it is the practice of the exporter to leave a part of the amount unpaid for some time, as undrawn balances, which is settled by the buyer after satisfying himself about the weight, quality, etc.,** on arrival and inspection or analysis of the goods.

Authorized dealers can handle such bills, provided the undrawn balance is in conformity with the normal level of balance left undrawn in the particular line of export trade, subject to a maximum of 10% of the full export value.

## F. Advances against duty drawback

- In case of certain commodities, particularly engineering items, the domestic cost of production is higher in relation to international prices, due to which the exporters of such commodities are given support from the government, to make them competitive in the overseas market.

## Crystallization of Overdue Bills

- All export bills drawn in foreign currency, purchased, discounted or negotiated, enter into the forward foreign currency position of the bank, and the liability of the exporter is to realise the same by the given due date and deliver the foreign currency to the bank.
- In case of non-realisation of export bill by the given due date, the foreign currency liability of the exporter would continue, till the bill is realized or the liability is converted into the home currency, i.e., Indian rupee in our case, and liability fixed for the exporter.

## Export Credit in Foreign Currency

- India have been permitted to extend export credit in foreign currency to its exporter clients, at LIBOR With a view to make credit available to exporters at internationally competitive interest rates, banks in linked rates.

## Gold Card Status for Exporters

**Based on the indications made by the government (Ministry of Commerce and Industry), in the Foreign Trade Policy 2003-04 to launch a Gold card scheme for creditworthy exporters with good track record for easy availability of export credit on best terms**, the RBI, in consultation with select banks and exporters, has drawn up a gold card scheme, which 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:*

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

- Applications for credit will be processed based on simpler norms and under a process faster than for other exporters.
- Banks would clearly specify the benefits they would be offering to Gold Card holders.
- The charges schedule and fee-structure in respect of services provided by banks to exporters under the Scheme will be relatively lower than those provided to other exporters.
- The sanction and renewal of the limits under the Scheme will be based 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.
- 'In-principle' limits will be sanctioned for a period of 3 years with a provision for automatic renewal subject to fulfilment of the terms and conditions of sanction.
- A stand-by limit of not less than 20% 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.
- In case of unanticipated export orders, norms for inventory may be relaxed, taking into account the size and nature of the export order.
- Requests from card holders would be processed quickly by banks within 25 days/15 days and 7 days for fresh applications/renewal of limits and ad hoc limits, respectively.
- Gold Card holders would be given preference in the matter of granting of packing credit in foreign currency.
- Banks would consider waiver of collaterals and exemption from ECGC insurance on the basis of card holder's creditworthiness and track record.
- 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.
- 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.
- 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.
- 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.
- Banks will consider granting term loans in foreign currency in deserving cases out of their FCNR (B), RFC, etc. funds.

## **Export Data Processing and Monitoring System (EDPMS)**

For better monitoring of export of goods and software and facilitating AD banks to report various returns through a single platform, the Reserve Bank of India has launched a comprehensive IT-based system called Export Data Processing and Monitoring System (EDPMS). The EDPMS has been operationalized with effect from 1st March, 2014.

### **Features of EDPMS**

- AD banks can access the updated list of caution listed exporters through EDPMS on daily basis. Hence, banks can now refer to the updated caution list of exporters on a regular basis.
- RBI will caution/de-caution the exporters based on the recommendation of AD banks. ADs may forward its findings to the concerned regional office of RBI recommending inclusion of the name of the exporter in the caution list. This will require the banks to report cases where the exporter is not traceable or not making any serious efforts for realization of export proceeds.
- The guidelines require banks to record advance remittances received for exports in EDPMS. Besides, banks will also be required to record old outstanding advances received. This would require banks to develop a recording mechanism to ensure that all advances have been captured in the EDPMS.

## **Factoring and Forfaiting**

Besides the regular financing avenues from banks, the exporters also have access to other avenues of financing which also act as risk management products.

Factoring and forfaiting are the two products, which allows the exporters to sell their book debts and raise finance upfront. Let us see how these products work and what benefits accrue to the exporters.

### **Factoring**

**Factoring is defined as a continuing agreement between a financial institution (known as "Factor") and the business concern (the exporter/seller) selling goods or services to track customers on Open Account Basis, whereby the factor purchases the clients' book debts, either with or without recourse to the client and in relation thereto controls the credit extended to the customers and administers the sales ledger.**

***A factor provides different services, which can be described as under:***

- **Debt Administration:** Managing the sales ledger of the client, saving his administrative cost of book keeping, invoicing, credit control and debt collection. This would also include work of following up for the debt collection.
- **Credit Protection:** As professionals, factors, will have the facility for credit intelligence to enable them to assess credit risk and advise their clients

accordingly. The database on the individual buyers built up over a period of time, by the factor could be used by the client for a fee.

- **Factor Financing:** While in India financing is an essential activity for a factor, in certain countries it may not be an essential service. Generally, a factor will be willing to advance up to 75-80% of the outstanding debts.

### Advantages of Factoring

- Immediate financing up to 75-80% of the invoice value.
- No need for LC, thus saving costs for the importer.
- Credit check on importers/buyers.
- Sales ledger maintenance.
- Credit protection on all approved debtor limits.
- Advisory services for new areas, countries.

### Forfaiting

- **Another product for financing of export receivables is Forfaiting.** It can be defined as a mechanism for financing by discounting of export receivables, without recourse to the exporter/seller, for a medium term, on a fixed rate basis, for the full value of the contract/invoice.
- In another words, forfaiting is the purchase by the financier, of medium term export claims on the buyers, without recourse to the exporters. It is a source of finance and not a type of credit insurance, as such no other costs, other than financing costs are involved in the transaction.

### Benefits of Forfaiting to Exporters

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

<i>FACTORING</i>	<i>FORFAITING</i>
Suitable for on-going open account sales not backed by LCs or accepted bills of exchange.	Suitable for one-off transactions backed by LCs or accepted (avalised) bills of exchange.
Short term in nature.	Medium to long term in nature (1 to 5 years).
Factoring can be with recourse or without recourse.	Forfaiting is generally without recourse.
Requires continuous arrangement between factor and client, whereby all sales are routed through the factor.	Seller need not route other business through the forfaiter. Deals are concluded transaction-wise.
Factor assumes responsibility of collection and helps client reduce overheads for the same.	Forfaiter's responsibility extends to collection of forfeited debt only.
Charges include those for financing, collection, administration, credit protection and MIS.	Charges include discount and commitment charges.
Factoring is commonly for domestic and international transactional.	Forfaiting is commonly for international transactions only.

### **Exchange and Trade Control Guidelines for Importers**

Keeping in view the need to conserve the precious foreign exchange, and to guard the country from scrupulous imports and bogus outward remittances, various export-import regulations and exchange control guidelines have been prescribed from time to time. While the physical movement of goods into India is regulated by Foreign Trade Policy formulated by the Director General of Foreign Trade (DGFT), the regulations relating to payment of such imports are governed by Exchange Control Regulations framed the basis of **Foreign Exchange Management Act, 1999 (FEMA 1999)**.

- **Importer-Exporter Code (IEC):** As explained earlier, first and foremost, the importer customer has to have a valid IEC, issued by the office of DGFT.
- **Approved commodity: Freely Permissible or Import licenses:** While ADs are required to ensure that the goods imported or intended to be imported are as per the current Foreign Trade policy, the goods can be can be freely imported, or can be imported under specific license issued for the purpose by the DGFT This has to be ensured prior to making import remittance, handling of import bills for collection or opening of letters of credit for import of goods. For this purpose, the ADs should verify the Foreign Trade Policy or the public notices issued by the DGFT.
- **Payments for imports:** Any person who wants to make a remittance for imports, should make an application (as prescribed by RBI) to the authorised dealer. The Application should contain the details of the currency, the total value of imports, commodity, the license number, etc., along with an undertaking by the importer that they will comply with the Exchange Control Regulations.

### **Import Finance**

#### **Import Letter of Credit**

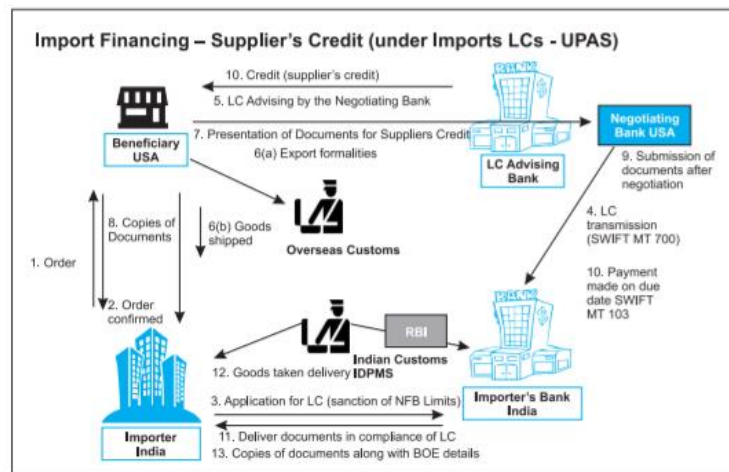
- **This is the most used method of financing imports. The importer gets LC limits sanctioned from his bank and establishes LC on DA basis (usance),** there by getting credit from the overseas supplier on the strength of his banks credibility (LC).
- At times import LC are also used to generate liquidity, by way of establishing DALCs for commodities, which can be sold immediately on sight basis, or for cash.
- We have seen how Letters of credit work, in earlier unit. LC transaction also support Buyers credit and suppliers' credit, being other modes for financing of imports, are discussed later in this unit.

### Import Loan

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

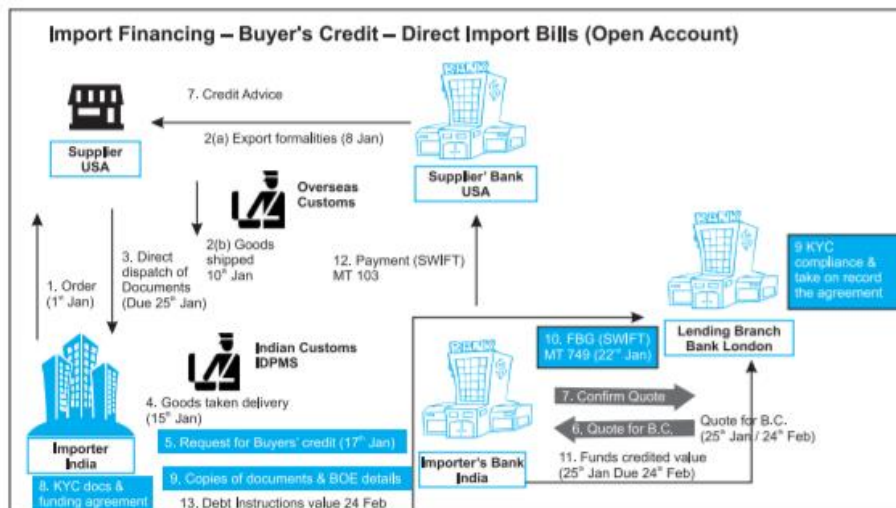
### **Trade Credit – Supplier's Credit And Buyer's Credit**

- **Supplier's Credit** Supplier's Credit is credit directly extended by the overseas supplier of goods to the importer. As in domestic markets, in the international markets also, the payment terms are either sight or on credit. The period of credit, normally depends on the necessity for the exporter/seller of the goods to increase sales, the demand of the goods in the market, requirement of the importer and the current market practices.
- The exporter may avail finance against the bills, after making the shipment, from his banker and the bank would receive funds on the maturity date. However, the exporter shall be liable to repay his bank, in case the overseas buyer does not make payment on due date. The period of supplier's credit, reckoned from the date of shipment, is to 3 years for import of capital goods. For non-capital goods, this period is up to 1 year or the operating cycle, whichever is less. The maximum amount of supplier's credit, per import transaction, that banks can approve is USD 50 mn.



### Buyer's Credit

- The buyer's credit is credit arranged by the importer (buyer), from a bank/financial institution outside his country, to settle the payment of imports. In short, it is credit arranged by the buyer to settle import payments, irrespective of the period of credit.
- In this type of credit, the supplier of the goods need not worry about the payment, as the payment is assured by the bank/financial institution, provided he completes his responsibility as per the requirement of the buyer. The modus operandi is that, in some cases on one hand the supplier (exporter) is not ready to give any credit (supplier's credit) while the buyer (importer) is also not in a position to make immediate payment.
- As such, the importer approaches his bank and requests for arrangement of payment to the exporter on immediate terms. The bank, through their own resources, or correspondent relationships, ties up with a foreign bank/financial institution, and after agreeing upon on the pricing/costing, makes arrangement to make payment to the exporter on submission of shipping documents. The importer then repays on the due date.
- Like in the case of supplier's credit, the period of buyer's credit, reckoned from the date of shipment, is to 3 years for import of capital goods. For non-capital goods, this period is up to 1 year or the operating cycle, whichever is less. Like supplier's credit, the maximum amount of buyer's credit, per import transaction, that banks can approve is USD 50 mn.



## CASE STUDY

**1.Total interest on the export bill discounted, will be charged up to;**

- (i) notional due date 25.10.2016
- (ii) value date of credit 27.10.2016
- (iii) date of realisation 30.10.2016
- (i) date of credit to nostro account 29.10.2016

Ans. 1: USD 50,000.00 @ 68.20 = Rs. 3,410,000.00 - less 12% for insurance and freight cost i.e Rs. 409200 = Rs.3,000,800.00 (fob value of the order. Less margin 25% i.e. Rs. 750,200.00 balance Rs. 2,250,600.00

Ans. 2: 67.89 - Bill buying rate on 31.8.2008 - 67.85 plus 4 paise premium for 30 days, this being a DA bill.

Ans. 3: USD 48,000.00 @ 67.89 = Rs. 3258720.00 less 15% margin on DA bill, i.e. Rs. 488808.00 = Rs 2,769,912.00

Ans.4: Bill submitted on 31.8.2016, drawn on 30 days DA plus normal transit period of 25 days - 31.8.2016 plus 30 days plus 25 days, i.e. total 55 days from 31.3.2016 i.e. 25.10.2016.

Ans 5: Interest is charged up to the date the funds have been credited to the banks NOSTRO account, the effective date of credit is the value date of credit, i.e. 27.10.2010.

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