IMPORTANT GUIDELINES ON RUPEE/FOREIGN EXPORT CREDIT*

PRE-SHIPMENT RUPEE EXPORT CREDIT

01. Rupee Pre-shipment Credit/Packing Credit

- ‘Pre-shipment/Packing Credit is the working capital finance granted to an exporter for purchase, processing, manufacturing or packing of goods prior to shipment/working capital expenses towards rendering of services against LCs or confirmed/irrevocable order or any other evidence of an order for export.

- The period of advance is to be decided by the Banks based on relevant factors. However, if the finance is not adjusted by submission of export documents within 360 days from the date of advance, it ceases to qualify for concessional rate of interest ab initio. Refinance from RBI is available for a period of 180 days.

- The facility may be released in one lump sum or in stages as per the requirement for executing the orders / LC. Stage wise release accounts may be maintained depending upon the types of goods/services to be exported. Banks should also keep a close watch on the end-use of the funds, besides monitoring the progress of execution of the orders.

- Liquidation of the export credit facility may be out of the proceeds of the bills drawn thereby converting the pre-shipment into post-shipment credit. It can also be liquidated out of the balances in the Exchange Earners Foreign Currency A/c (EEFC A/c) as also from rupee resources of the exporter to the extent exports have actually taken place. If not so liquidated/ repaid, banks are free to decide the rate of interest from the date of advance.

- The exporter is permitted to liquidate the packing credit in excess of the exports due to wastage, etc. by export bills drawn in respect of by-product like cashew shell oil, etc.

- For the packing credit covering non-exportable portion in respect of export of agro-based products like tobacco, pepper, cardamom, cashew nuts etc., banks are required to charge commercial rate of interest applicable to the domestic advance from the date of advance of packing credit and that portion of the packing credit would not be eligible for any refinance from RBI.

- The advance in excess of the export order in respect of HPS groundnut and de-oiled / defatted cakes 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 to be eligible for concessional rate of interest.

- Banks would provide operational flexibility for repayment/liquidation of EPC with export documents relating to other export order for the same or other commodity exported or 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 to clients who have a good track record. These relaxations should not be extended to transactions of sister / associate / group concerns.
1.1 'Running Account' Facility

- Pre-shipment export credit facility in respect of any commodity without insisting lodgement of LC or export orders which should be produced within a reasonable period of time to be decided by the banks. This facility is being extended only to those exporters whose track record has been good as also to EOU/ Units in Free Trade Zones / EPZs and SEZs. Running account facility should not be granted to sub-suppliers.

1.2 Rupee Pre-shipment Credit to Specific Sectors/Segments

- Banks are permitted to grant Rupee Export Packing Credit to Manufacturer Suppliers for Exports Routed through STC/MMTC/Other Export Houses, Agencies etc. Such advances will be eligible for refinance subject to some conditions including obtaining a letter from the export house setting the details of the export order, etc.

1.3 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 condition that it cannot be made available to Running Account facility.

- The scheme will cover the L/C 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. Banks may approach the ECGC for availing suitable cover in respect of such advances.

1.4 Rupee Pre-shipment Credit to Construction Contractors

- The Packing Credit facility can be granted to the construction contractors to meet their initial working capital requirements (preliminary expenses) for execution of contracts abroad on the basis of a firm contract secured from abroad, in a separate account.

- The advances should be adjusted within 365 days of 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 on such advance.

1.5 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). All provisions of the circular shall apply mutatis mutandis to export of services as they apply to export of goods unless otherwise specified.

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

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

- Export processing units set up in Agri- Export Zones may be provided packing credit 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, besides advantages of economics of scale.

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

- Banks are eligible to obtain Whole-Turnover Packing Credit (ECIB-WTPC) for all its packing credit accounts on payment nominal guarantee fee which is to be borne by the exporters. The period of cover is for 12 months. It gives protection to the banks against losses that may be incurred in extending packing credit advances due to protracted default or insolvency of the exporter-client. The coverage is available for banks taking the cover for the first time is 75% upto Grade Percentage limit fixed and 65% beyond (For others varies from 55% to 75% depending on claim premium ratio of the bank). For small exporters/SSIU, it is 90%. Banks are required to submit Monthly declaration along with premium amount. Any extension of due date beyond 360 days should be approved by the ECGC.

02. POST SHIPMENT RUPEE EXPORT CREDIT

- 'Post-shipment Credit' is the working capital facility granted or any other credit provided by a bank to an exporter of goods / services from the date of extending credit after shipment of goods / rendering of services to the date of realization of export proceeds. As per the extant instructions, the period prescribed for realization of export proceeds is 12 months from the date of shipment.

- Post-shipment advance are made available in the form of -
  (i) Export bills purchased/discounted/negotiated.
  (ii) Advances against bills for collection.
  (iii) Advances against duty drawback receivable from Government.

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

2.1 Rupee Post-shipment Export Credit

The period of credit can be:

<table>
<thead>
<tr>
<th>Nature of bill</th>
<th>Period of Advance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Bills</td>
<td>Normal Transit Period (NTP)*</td>
</tr>
<tr>
<td>Usance Bills</td>
<td>Max. 365 days from the date of shipment (incl. of NTP)</td>
</tr>
<tr>
<td>Overdue bill – Demand bill</td>
<td>Not paid within NTP plus grace period</td>
</tr>
<tr>
<td>Usance Bill</td>
<td>Not paid on due date</td>
</tr>
</tbody>
</table>

* Average period involved from date of negotiation/purchase/discount till the receipt of proceeds in the Nostro account of the Bank.

2.2 Advances against Undrawn Balances on Export Bills

- Banks are permitted to grant advances against the undrawn balances at concessional rate for a maximum period of 90 days provided such remittances are received within
180 days after expiry of NTP in case of demand bills and due date in case of usance bills. For the period beyond 90 days, the rate of interest specified for the category ‘ECNOS’ (Export Credit Not Otherwise Specified) at post-shipment stage may be charged.

2.3 Advances against Retention Money
• Banks may consider granting advance against retention money based on the nature of the export order like turnkey projects, etc. Such finance are subject to some guidelines as set out by RBI and listed in the M. Circular dt. 01.07.2011. No advances to be granted against retention money relating to services portion of the contract.

2.4 Export on Consignment Basis
• Export on consignment basis should be at par with exports on outright sale basis on cash terms in matters regarding the rate of interest to be charged by banks on post-shipment credit.
• For pre-shipment finance against the exports of precious and semi-precious stones on consignment exports, is adjusted 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, RBI. Balance in the special (post-shipment) account will not be eligible for refinance from RBI.
• RBI (FED) permits on case to case basis longer period up to 12 months from the date of shipment for realization of proceeds of exports in case of Consignments Exports to CIS and East European Countries, Consignment exports to Russian Federation against repayment of State Credit in rupees, Exporters who have been certified as ‘Status Holder’ in terms of Foreign Trade Policy, and Cent percent EOU and units set up under Electronic Hardware Technology Park, Software Technology Park and Bio-Technology Park Schemes. In case of Exports through the Warehouse–cum-Display Centers abroad realization of export proceeds has been fixed upto 15 months from the date of shipment.

2.5 Export of goods for Exhibition and Sale
• Export of goods for exhibition and sale are eligible for export finance both pre and post shipment stages.

2.6 Post shipment on Deferred Payment Terms
• Post shipment credit on deferred payment terms for a period exceeding one year, in respect of export of capital and producer goods as specified by RBI (FED) from time to time.

2.7 Post shipment advance against Duty Drawback Entitlements
• Post shipment finance for Duty Drawback entitlements/receivables and covered by ECGC guarantee is available to exporters at concessional rate and refinance from RBI upto a maximum period of 90 days from the date of advance.

2.8 ECGC Whole Turnover Post-shipment Guarantee Scheme
• The Whole Turnover Post-shipment Guarantee Scheme of the Export Credit Guarantee Corporation of India Ltd. (ECGC) provides protection to banks against non-payment of post-shipment credit by exporters to the extent of the loss incurred by the bank/financial institution upto 75%. The cost of premium to be absorbed by the banks.
2.9 DEEMED EXPORTS - RUPEE EXPORT CREDIT AT PRESCRIBED RATES

- Banks are permitted to extend rupee pre-shipment and post-supply 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) and considered as Deemed exports.

- Banks would be eligible for refinance from RBI for such rupee export credits extended both at pre-shipment and post-supply stages.

03. INTEREST ON RUPEE EXPORT CREDIT

- With effect from 01.07.2010, interest rates applicable for all tenors of rupee export credit advances are at or above Base Rate. Prior to the period, it was not exceeding BPLR minus 2.5% per annum.

- If pre-shipment advances are not liquidated from proceeds of bills on purchase, discount, etc. on submission of export documents within 360 days from the date of advance, the advances will cease to qualify for prescribed rate of interest for export credit ab initio. Such credits will be termed as Export Credit Not Otherwise Specified (ECNOS) and banks may charge interest rate prescribed for 'ECNOS' pre-shipment

- If exports do not materialize at all, banks should charge on relative packing credit domestic lending rate plus penal rate of interest, if any, to be decided by the banks on the basis of a transparent policy approved by their Board.

3.1 ECNOS

- Banks are free to decide the rate of interest keeping in view of BPLR and spread guidelines in respect of specified ECNOS. No penal interest to be charged on ECNOS.

3.2 Interest on Post-shipment credit

For early payment

<table>
<thead>
<tr>
<th>Nature of bills</th>
<th>Payment</th>
<th>Applicable Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Bills</td>
<td>Before expiry of NTP</td>
<td>Prescribed Rate from date of advance to realization (credit in Nostro Account)</td>
</tr>
<tr>
<td>Usance Bills</td>
<td>Before due date</td>
<td>Prescribed rate up to the notional/actual due date or credit to the bank's Nostro account abroad, whichever is earlier,</td>
</tr>
<tr>
<td>Demand Bills/Usance Bills</td>
<td>Interest for NTP/Notional or actual due date already recovered</td>
<td>Excess interest collected, if any, should be refunded.</td>
</tr>
<tr>
<td>Overdue bills (Demand / usance bills)</td>
<td>After NTP in case of Demand bills / upon expiry of Due date in case of usance bills</td>
<td>Prescribed rate upto NTP (Demand Bills) / Due date (usance bills) and overdue period BPLR minus 2.5% till further notice</td>
</tr>
</tbody>
</table>
3.3 Interest on Post shipment Credit adjusted from rupee resources

- In case ECGC has settled the claim due to non-expatriation of foreign exchange by the Govt./Banking Authorities of the importer countries as a result of balance of payment problems even though the payments have been made locally by the importers, interest rate as applicable for ECONOS post shipment to be charged on full amount of advance.
- In case of realization of export receivables subsequently in the approved manner, the exporters may be refunded the difference in interest recovered and recoverable.

Change of Tenor of Bill

- Banks have been permitted to revise the tenor of export bills within the maximum period prescribed by FED for realization of export proceeds at prescribed rate of interest.

3.4 Rupee Export Credit Interest Rates Subvention

- GOI had in past announced interest rate subvention of 2% per annum on rupee export credit availed by exporters (in 2007, Dec.2008, April 2010, and Aug. 2010) for specified categories of exports subject to the rate should not fall below 7%, the rate applicable to agriculture sector lending. With the changeover to Base rate system w.e.f. 01.07.2010, Banks were directed to reduce the interest rate chargeable to the exporters as per the Base Rate System to the earlier specified category/sectors by the amount of subvention available without treating it as a violation of Base rate guidelines. The subvention would be reimbursed by RBI on the basis of quarterly claims submitted by the banks.

EXPORT CREDIT IN FOREIGN CURRENCY

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

- PCFC facility is granted to exporters in Foreign Currency for domestic and imported inputs of exported goods at LIBOR/EURO LIBOR/EURIBOR related rates. This is an additional window for providing pre-shipment credit to Indian exporters at internationally competitive rates and applicable to only cash exports.

- 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 Rediscounting of Export Bills Abroad Scheme (EBR)- dealt separately.
  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.

- The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc. Operational flexibility is provided by extending PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. The risk and cost of cross currency transaction will be that of the exporter.

- Banks are permitted to extend PCFC for exports to ACU countries.
- The applicable benefit to the exporters will accrue only after the realization of the export bills or when the resultant export bills are rediscounted on ‘without recourse’ basis.

**4.1 Source of Funds for Banks**

- Banks are permitted to utilize the foreign currency balances available with the bank in Exchange Earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency Accounts (RFC(D)) and Foreign Currency (Non-Resident) Accounts (Banks) Scheme, and the foreign currency balances available under Escrow Accounts and Exporters Foreign Currency Accounts for financing the pre-shipment credit in foreign currency.

- In addition, banks may arrange for borrowings (Line of credit) from abroad without RBI approval provided the rate of interest on the borrowing does not exceed 100 basis points over six months LIBOR/EURO LIBOR/EURIBOR. Banks may also avail lines of credit from other banks in India in case they are not in a position to raise loans from abroad subject to the condition that the ultimate cost to the exporter should not exceed 200 bps above LIBOR/EURO/EURIBOR, etc.

**4.2 Spread**

- The spread for pre-shipment credit in foreign currency will be related to the international reference rate such as LIBOR/EURO LIBOR/EURIBOR (6 months). The lending rate to the exporter should not exceed 200 basis points over LIBOR / EURO LIBOR/EURIBOR, excluding withholding tax.

- 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.

**4.3 Period of Credit**

- The PCFC will be available for a maximum period of 360 days. Any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit and it will also have additional interest cost of 200 basis points above the rate for the initial period of 180 days prevailing at the time of extension.

- 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.

**4.4 Disbursement of PCFC**

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

**4.5 Liquidation of PCFC accounts**

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

- Packing credit in excess of F.O.B. value, PCFC would be available only for exportable portion of the produce.
- Repayment / liquidation of PCFC could be with export documents relating to the order or any other order covering the same or any other commodity exported by the exporter or Running Account Facility for All Commodities
- Banks are permitted to extend the ‘Running Account’ facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit.

### 4.6 Forward Contracts

- Banks are 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, besides allowing customers to seek cover in any permitted currency of their choice subject to ensuring that the customer is exposed to exchange risk in the underlying transaction.

### 4.7 Sharing of EPC under PCFC

- Like in the case of rupee export packing credit, the PCFC is also allowed to be shared between an export order holder and the manufacturer of the goods to be exported.
- Supplies from One EOU/EPZ/SEZ Unit to another EOU/EPZ/SEZ Unit PCFC may be made available to the supplier EOU/EPZ/ SEZ unit and the receiver EOU/EPZ/ SEZ.

### 4.8 Deemed Exports

- PCFC may be granted for ‘deemed exports’ only for supplies to projects financed by multilateral/bilateral agencies/funds for a maximum period of 30 days or up to the date of payment by the project authorities, whichever is earlier.

### Other Aspects

- No Refinance from RBI is available under PCFC.
- 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.
- ECGC cover will be available in rupees only, whereas PCFC is in foreign currency.

### Diamond Dollar Account (DDA) Scheme

- Units engaged in trading 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).

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

#### 5.1 Rediscounting of Export Bills Abroad Scheme (EBR)

- Banks are allowed to discount the export bills by using its resources available under Exchange Earners Foreign Currency Accounts (EEFC), Resident Foreign Currency
Accounts (RFC), Foreign Currency (Non-Resident) Accounts (Banks) Scheme, and retain them in their portfolio without resorting to rediscounting. Banks are also allowed to rediscount export bills abroad at rates linked to international interest rates at post-shipment stage.

- Banks may arrange a “Bankers Acceptance Facility” (BAF) for rediscounting the export bills at NIL margins and duly covered by collateralized documents. 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.

- The Scheme will cover mainly export bills with usance period up to 180 days from the date of shipment (inclusive of normal transit period and grace period, if any). There is, however, no bar to include demand bills, if overseas institution has no objection to it. In case borrower is eligible to draw usance bills for periods exceeding 180 days as per the extant instructions of FED, Post-shipment Credit under the EBR may be provided beyond 180 days.

5.6 **Facility of Rediscounting 'with recourse' and 'without recourse'**

- In case any AD is in a position to arrange ‘without recourse’, which is generally not feasible, is permitted to avail such facility.

5.7 **ECGC Cover**

- Coverage is available for bills rediscounted ‘with recourse’, and not otherwise.

**Refinance**

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

**Interest on Export Credit in Foreign Currency**

- Banks are permitted to fix the rates of interest with reference to ruling LIBOR, EURO LIBOR or EURIBOR, wherever applicable, not exceeding 200 basis points over LIBOR/EURO LIBOR/EURIBOR in respect of both PCFC and EBR.

06. **CUSTOMER SERVICE AND SIMPLIFICATION OF PROCEDURES**

- In order to address various issues relating to customer service to exporters, RBI had constituted a Working Group in May 2005, consisting of select banks and exporters’ organizations to review Export Credit and the group has made some recommendations which have been accepted and communicated to the Banks. The recommendations are listed out in detail in RBI circular dt. 01.07.2011

6.1 **Gold Card Scheme for Exporters**

- Being part of the customer service, 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 brought out in the Circular.
6.2 Sanction of Export Credit Proposals

- The time frame fixed for sanction of fresh/enhanced export credit limits is within 45 days from the date of receipt of credit limit application. 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. Banks should adopt a flexible approach in disposing of genuine requests for any adhoc facilities.

- Banks should simplify the application form and reduce data requirements from exporters for assessment of their credit needs. 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.

- Banks to provide 'Line of Credit' normally for one year (can consider for longer periods upto 3 years) 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.

- Banks should not insist on submission of export order or L/C for every disbursement of pre-shipment credit, from exporters with consistently good track-record. Instead, a system of periodical submission of a statement of L/Cs or export orders in hand should be introduced.

- Banks should ensure that exporters’ credit requirements are met in full and promptly at competitive rates. The 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 organizations to eliminate the bottlenecks in the flow of credit to the export sector, etc.

6.3 Crystallization of Export bills

Export bills are expected to be realized within 12 months from the date of export. In genuine cases, it can be extended. In case of non-realisation by due date, the outstanding may be converted to rupee terms to avoid the exchange rate fluctuations. In case of default, banks are expected to lodge ECGC claim for settlement as per guidelines.

*(SOURCE: RBI MASTER CIRCULAR)