Types of Export Finance

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Huge quantities of goods are sold in the form of exports in the International Market. These exports require a certain amount of financial assistance for the execution of the order. The finance depends upon the types of goods to be executed and also based on the overseas buyers. The amount can vary based on the requirement from short term to long term finance. This financial assistant provided by financial institutions for the export purpose is called EXPORT FINANCE.

Financial institutions which offer export finance:

1. EXIM Bank
2. ECGC- Export Credit Guarantee Corporation of India
3. Development banks such as IDBI, ICICI,
4. National Small Industries Corporation
5. Commercial banks
6. State Finance Corporations

Reserve Bank of India- though it doesn't provide export finance directly, it adopts policies to provide them. The departments under RBI which deals with export finance are

1. Industrial and credit department
2. Exchange control department

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TYPES OF EXPORT FINANCE:

Different types of export finance are as follows:

1. Pre- shipment finance (180-270 days)
2. Post shipment finance (180 days)
3. Export finance against the collection of bills.
4. Deferred export finance
5. Export finance against allowances and subsidies

1. Pre-shipment finance:

- Pre-shipment finance is provided when the exporter or seller wants the payment even before the shipment of the products or goods.
- Finance is provided for the purchase of raw materials/goods, processing them into finished products, storage cost, packing and marking of goods prior to shipment.
- This type of finance is approved when a firm order is placed by the importer
- Also known as packing credit.
- Pre-shipment finance is granted for a period of 180 days as it is a working capital
- In the case of unforeseen circumstances, it can be extended to 90 days. The maximum period allowable is 270 days.

2. Post shipment finance:

- After dispatching the goods to the importer, the exporter has to make a bill, which is to be paid by the importer. It takes about 3 to 6 months before the amount is received by the exporter. This time gap effects the production of the exporter. For this purpose, the exporter will present the bill to the financial institution which provides finance for exports. The bank can purchase the bill or collect the bill or even discount the bill.
- Post shipment finance is used to pay the wages or other services.
- To pay for cargo/shipping chargers
- To pay for advertising in overseas market for promotion

- The rate of interest on post-shipment finance varies from minimum 90 days and can be extended based on individual financial institution.

3. Export finance against the collection of bills:

The finance or loan can be obtained by the exporter based on the bills of the purchase made by the importer or overseas company. In the case of any default, the finance company will compensate about 80% of the default amount. It is considered as post shipment finance.

4. Deferred export finance:

- Finance is also available for the importers / oversea buyers to facilitate import of goods. There are two types:

1. Suppliers finance – finance is provided to the exporter (example India) by exporter's bank (Indian bank) to sell the goods on the installment basis.
2. Buyers finance – finance is provided to an overseas buyer by the exporter's company. This enables the overseas buyer to pay for equipment or machinery purchased from the exporter company (example Indian company).

5. Export finance against allowances and subsidies:

In circumstances when there is unexpected rise in expenditure due to national and international changes, the government provides allowances or subsidies for export of goods at the reduced price to the importer.

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