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SEMESTER – VI

SUBJECT - INTERNATIONAL MARKETING

UNIT - 5 – TOPIC – EXPORT FINANCE

PART - 3

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SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

MEANING

Small industries development bank of India (SIDBI) was established in April, 1990 under an act of parliament, the Small Industries Development Bank of India Act, 1989, as a wholly owned subsidiary of Industrial Development Bank of India, the premier development bank in the country.

OBJECTIVES

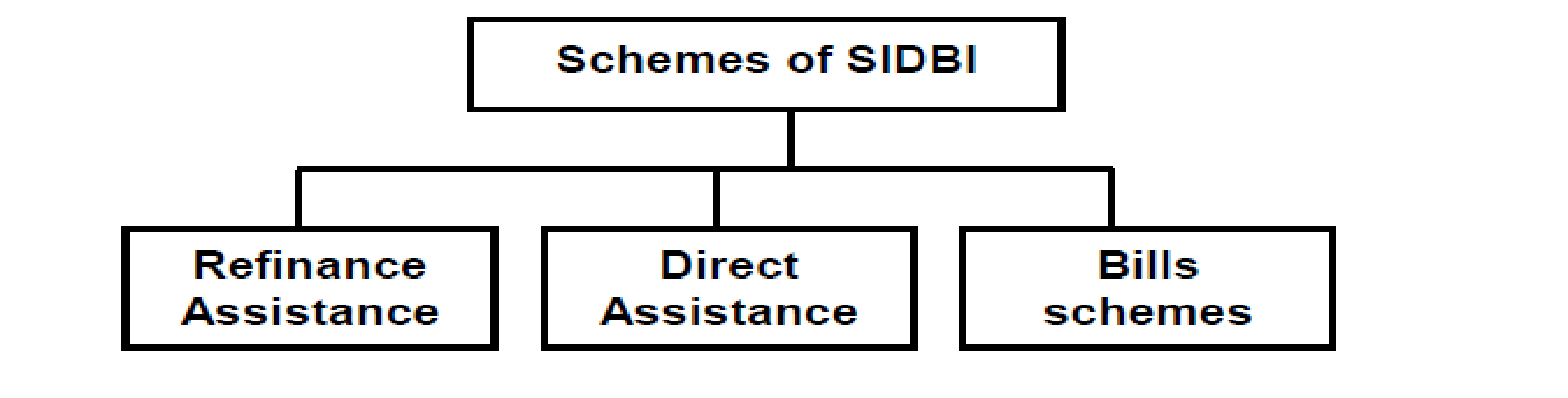
The main objectives of SIDBI are as follows

(a) To serve as the principal financial institution for promotion, financing and development of small scale sector.

(b) To coordinate the functions of the institutions engaged in promoting, financing of developing small scale sector.

FUNCTIONS

The main functions of SIDBI are as follows- SIDBI provides various schemes for the promotion, finance and development of units in the small scale sector and in the tiny sector. The various schemes are broadly classified into three groups.



I) REFINANCE ASSISTANCE

1) Seed capital scheme

SFCS/SIDCS provide seed capital to promoters of SSI units. The SFC/SIDC can then obtain refinance from SIDBI. This scheme enables the entrepreneurs to meet promoter’s contribution towards equity.

2) **Equipment Refinance Scheme**

SFVS/SIDCS provide equipment refinance to SSI units to purchase equipment for the purpose of expansion and modernization. The SFC/SIDC can then obtain refinance from SIDBI, if so required.

3) **Tourism Related Finance Scheme**

SFCS/SIDCS provide finance to entrepreneurs foresting up tourism related activities, such as development of amusement parks, cultural centres, restaurants, etc. The SFC/SIDC can then obtain refinance from SIDBI.

II) DIRECT ASSISTANCE

1) Project Finance Scheme SIDBI provides direct finance to SSI units for setting up new projects. Preference is given to those units with export orientation, import substitution, hitech and those promoted by entrepreneurs with good track record.

The project cost should not be less than Rs. 75 lakh and the debt equity ratio not to exceed 2:1

2) ISO 9000 Scheme

SIDBI provides direct finance to obtain ISO 9000 certification. The objectives are to promote quality systems in SSI units, with a view to strengthen their marketing and export capabilities.

3) Equipment finance Scheme

SIDBI provides direct finance to SSI units for the purchase of equipment, required for the purpose of expansion and modernization.

III) BILLS SCHEMES

1) **Direct Discounting Scheme (DDS)** SIDBI directly discounts bills regarding sale of equipments where period of bill is 5 years and minimum transaction is Rs. 1 lakh. The same scheme is applicable in sale of components where period of bill does not exceed 90 days.

2) **Bills Rediscounting Scheme (BRS)** Under the scheme, SIDBI rediscounting the bills which were earlier discounted by commercial banks.

EXPOR CREDIT GUARANTEE CORPORATION OF INDIA LTD. (ECGC)

MEANING

In order to provide export credit and insurance support to Indian exporters, the GOI has set up the export risk insurance corporation (ERIC) in July, 1957. It is now known as ECGC of India ltd.

ECGC is a company wholly owned by the GOI. It functions under the administrative control of the ministry of commerce and is managed by a board of directors representing government, banking, insurance, trade and industry.

OBJECTIVES

The main objectives of ECGC are as follows

1. ECGC is designed to protect exporters from the consequences of payment risks both political and commercial.

2. It helps exporters to expand their overseas business without fear of loss.

3. It enables exporters to get timely and liberal/bank finance.

4. It provides to banks financial guarantees to safe guard their interests.

5. It enables exporters and importers to take calculated risks in business.

7. It provides services which are not available from commercial insurance companies.

POLICIES ISSUED BY THE ECGC

ECGC issues various policies and guarantees which are as follows

1) Standard Policies

Standard policies issued to exporters to protect them against payment risks involved in exports on short term credit.

2) Specific Policies

Specific policies designed to protect Indian firms against payment risk involved in (a) Exports on deferred terms of payment (b) Services rendered to foreign parties, and (c) Construction works and turnkey projects undertaken abroad.

3) Financial Guarantees

Financial guarantees issued to banks in India to protect them from risks of loss involved in their extending financial support to exporters at pre-shipment and post-shipment stages.

4) Special Scheme

Special schemes such as transfer guarantee mean to protect banks which add confirmation to letters of credit opened by foreign banks, insurance cover for buyer’s credit.

FORFEITING SCHEME OF EXIM BANK

MEANING

The word „Forfeiting‟ is derived from the French word “Forfait” which means “Surrender of rights”. It is the non-recourse discounting of export receivables. In a forfeiting transaction, the exporter surrenders, without recourse to him, his right to claim payment of goods delivered to the importer. This is in return for immediate cash payment form the forfeiter. As a result of this, an Indian exporter can convert credit sale unit cash sale.

ROLE OF EXIM BANK IN FORFAITING

The EXIM bank is authorized by the RBI since February, 1992, to facilitate export financing through forfeiting.

a) By discounting export receivables (bills)

b) Exports evidenced by bills of exchange or promissory notes.

c) Without recourse" to the exporter.

d) Bills having medium to long term maturities.

e) Discounting at fixed rate of discount. f) Financing up to 100% of the contract value.

BENEFITS OF FOREAITING SCHEME TO THE EXPORTER

1. The exporter can improve his liquidity position as the credit sales are converted into a cash transaction.

2. There are no chances of commercial risks as the exporter forfeits his right to receive payment without recourse to him, to the forfeiting agency. The exporter need not face the problem of political risks.

3. The exporter can obtain finance up to 100% of the export value.

4. Forfeiting does away with the export credit insurance.

5. Export is free from the burden of credit administration and collection problem of export proceeds.

PROCEDURE INVOLVED IN FORFEITING SCHEME

The procedure involved in the forfeiting scheme is as follows

1. **Negotiations with Overseas Buyer**

The exporter negotiates with the prospective buyer with respect to the basic contract price and terms of credit such as period of credit, rate of interest etc.

2. **Obtaining Indicative Discounting Quote**

The exporter submits to the EXIM bank the relevant details such as the name and country of the overseas buyer, nature of goods to be exported, terms of credit and name and address of the buyer's bankers. He then requests the EXIM bank for and indicative discounting quote. The EXIM bank obtains from the overseas forfeiting agency the indicative quote of forfeiting discount together with the commitment fee and other charges.

3. Finalising the Contract

On receipt of the indicative quote form the forfeiting agency, the exporter finalises the terms of contract with the overseas buyer.

4. Obtaining Firm Forfeiting Quote

On receipt of the indicative quote from the EXIM bank, the exporter has to finalise the terms of contract with the overseas buyer and then approach the EXIM bank of obtaining a final quote.

5. Obtaining Availsed Promissory Notes/Bills of Exchange

The exporter requests the importer to issue availsed (guaranteed by a bank) promissory notes in his favour. The promissory notes are endorsed with the words. “Without recourse” by the exporter. Alternatively the exporter may draw bills of exchange on the importer. The bills are sent along with the shipping documents through the buyer‟s bankers for acceptance.

6. Submission of Notes/Bills of EXIM Bank

The exporter hands over the avalised promissory notes or accepted bills of exchange to his bankers. The bankers in turm hands them over to the EXIM bank.

7. Forwarding of Notes/Bills to forfaiting agency

The EXIM bank verified the promissory note or bills and then forwards it to the forfeiting agency for discounting purpose.

8. Collection of Amount

The EXIM bank then makes arrangement to collect the discounted proceeds of promissory notes or bills from the overseas forfeiting agency. The EXIM bank then credits the proceeds to the exporter through his bankers.

On the due of the promissory notes/bills the forfeiting agency makes arrangement to realize the payment from the overseas buyer.

THANK YOU