

Pre Shipment and Post Shipment Export Finance.

Export Finance Pre Shipment and Post Shipment

The Exim Guide to Export Finance has been developed for our exporter as well as importer from the team of Infodrive India Pvt. Ltd. We are export-import based company working for the benefits of exporters and importer through a strong and balance relationship among our clients.

Exim Guide to Export Finance offers a wide variety of financial measures to promote exports. The guide also deals with the role of commercial banks and export credit agencies and private-sector credit insurance. This complete guide offers entrepreneurs practical information on how identify the most suitable payment methods and required credit facilities. The guide also provides information on finance related legal documentation and models of the most common forms and agreements.

There are 3 standard ways of payment methods in the export import trade international trade market:

Clean Payment

Collection of Bills

Letters of Credit L/c

1. Clean Payments

In clean payment method, all shipping documents, including title documents are handled directly between the trading partners. The role of banks is limited to clearing amounts as required. Clean payment method offers a relatively cheap and uncomplicated method of payment for both importers and exporters.

There are basically two type of clean payments:

Advance Payment

In advance payment method the exporter is trusted to ship the goods after receiving payment from the importer.

Open Account

In open account method the importer is trusted to pay the exporter after receipt of goods. The main drawback of open account method is that exporter assumes all the risks while the importer gets the advantage over the delay use of company's cash resources and is also not responsible for the risk associated with goods.

2. Payment Collection of Bills in International Trade

The Payment Collection of Bills also called “Uniform Rules for Collections” is published by International Chamber of Commerce (ICC) under the document number 522 (URC522) and is followed by more than 90% of the world's banks.

In this method of payment in international trade the exporter entrusts the handling of commercial and often financial documents to banks and gives the banks necessary instructions concerning the release of these documents to the Importer. It is considered to be one of the cost effective methods of evidencing a transaction for buyers, where documents are manipulated via the banking system.

There are two methods of collections of bill :

Documents Against Payment D/P

In this case documents are released to the importer only when the payment has been done.

Documents Against Acceptance D/A

In this case documents are released to the importer only against acceptance of a draft.

3. Letter of Credit L/c

Letter of Credit also known as Documentary Credit is a written undertaking by the importers bank known as the issuing bank on behalf of its customer, the importer (applicant), promising to effect payment in favor of the exporter (beneficiary) up to a stated sum of money, within a prescribed time limit and against stipulated documents. It is published by the International Chamber of Commerce under the provision of Uniform Custom and Practices (UCP) brochure number 500.

Various types of L/Cs are :

Revocable & Irrevocable Letter of Credit (L/c)

A Revocable Letter of Credit can be cancelled without the consent of the exporter. An Irrevocable Letter of Credit cannot be cancelled or amended without the consent of all parties including the exporter.

Sight & Time Letter of Credit

If payment is to be made at the time of presenting the document then it is referred as the Sight Letter of Credit. In this case banks are allowed to take the necessary time required to check the documents.

If payment is to be made after the lapse of a particular time period as stated in the draft then it is referred as the Term Letter of Credit.

Confirmed Letter of Credit (L/c)

Under a Confirmed Letter of Credit, a bank, called the Confirming Bank, adds its commitment to that of the issuing bank. By adding its commitment, the Confirming Bank takes the responsibility of claim under the letter of credit, assuming all terms and conditions of the letter of credit are met.

Introduction

Payment Collection Against Bills also known documentary collection as is a payment method used in international trade all over the world by the exporter for the handling of documents to the buyer's bank and also gives the banks necessary instructions indicating when and on what conditions these documents can be released to the importer.

Collection Against Bills is published by International Chambers of Commerce (ICC), Paris, France. The last updated issue of its rule was published on January 1, 1966 and is known as the URC 522.

It is different from the letters of credit, in the sense that the bank only acts as a medium for the transfer of documents but does not make any payment guarantee. However, collection of documents are subjected to the Uniform Rules for Collections published by the International Chamber of Commerce (ICC).

Role of Various Parties

Exporter

The seller ships the goods and then hands over the document related to the goods to their banks with the instruction on how and when the buyer would pay.

Exporter's Bank

The exporter's bank is known as the remitting bank, and they remit the bill for collection with proper instructions. The role of the remitting bank is to :

- Check that the documents for consistency.
- Send the documents to a bank in the buyer's country with instructions on collecting payment.
- Pay the exporter when it receives payments from the collecting bank.

Buyer/Importer

The buyer / importer is the drawee of the Bill.

The role of the importer is to :

- Pay the bill as mention in the agreement (or promise to pay later).
- Take the shipping documents (unless it is a clean bill) and clear the goods.

Importer's Bank

This is a bank in the importer's country : usually a branch or correspondent bank of the remitting bank but any other bank can also be used on the request of exporter.

The collecting bank act as the remitting bank's agent and clearly follows the instructions on the remitting bank's covering schedule. However the collecting bank does not guarantee payment of the bills except in very unusual circumstance for undoubted customer , which is called availing.

Importer's bank is known as the collecting / presenting bank. The role of the collecting banks is to :

- Act as the remitting bank's agent
- Present the bill to the buyer for payment or acceptance.
- Release the documents to the buyer when the exporter's instructions have been followed.
- Remit the proceeds of the bill according to the Remitting Bank's schedule instructions.

If the bill is unpaid / unaccepted, the collecting bank :

- May arrange storage and insurance for the goods as per remitting bank instructions on the schedule.
- Protests on behalf of the remitting bank (if the Remitting Bank's schedule states Protest)
- Requests further instruction from the remitting bank, if there is a problem that is not covered by the instructions in the schedule.
- Once payment is received from the importer, the collecting bank remits the proceeds promptly to the remitting bank less its charges.

Documents Against Payments (D/P)

This is sometimes also referred as Cash against Documents/Cash on Delivery. In effect D/P means payable at sight (on demand). The collecting bank hands over the shipping documents including the document of title (bill of lading) only when the importer has paid the bill. The drawee is usually expected to pay within 3 working days of presentation. The attached instructions to the shipping documents would show "Release Documents Against Payment"

Risks :

Under D/P terms the exporter keeps control of the goods (through the banks) until the importer pays. If the importer refuses to pay, the exporter can:

- Protest the bill and take him to court (may be expensive and difficult to control from another country).
- Find another buyer or arrange a sale by an auction.

With the last two choices, the price obtained may be lower but probably still better than shipping the goods back, sometimes, the exporter will have a contact or agent in the importer's country that can help with any arrangements. In such a situation, an agent is often referred to as a Case of Need, means someone who can be contacted in case of need by the collecting bank.

If the importer refuses to pay, the collecting bank can act on the exporter's instructions shown in the Remitting Bank schedule. These instructions may include:

- Removal of the goods from the port to a warehouse and insure them.
- Contact the case of need who may negotiate with the importer.
- Protesting the bill through the bank's lawyer.

Documents Against Acceptance (D/A)

Under Documents Against Acceptance, the Exporter allows credit to Importer, the period of credit is referred to as Usance, The importer/ drawee is required to accept the bill to make a signed promise to pay the bill at a set date in the future. When he has signed the bill in acceptance, he can take the documents and clear his goods.

The payment date is calculated from the term of the bill, which is usually a multiple of 30 days and start either from sight or from the date of shipment, whichever is stated on the bill of exchange. The attached instruction would show "Release Documents Against Acceptance".

Risk

Under D/A terms the importer can inspect the documents and, if he is satisfied, accept the bill for payment on the due date, take the documents and clear the goods; the exporter loses control of them.

The exporter runs various risk. The importer might refuse to pay on the due date because :

- He finds that the goods are not what he ordered.
- He has not been able to sell the goods.
- He is prepared to cheat the exporter (In cases the exporter can protest the bill and take the importer to court but this can be expensive).
- The importer might have gone bankrupt, in which case the exporter will probably never get his money.

Usance D/P Bills

A Usance D/P Bill is an agreement where the buyer accepts the bill payable at a specified date in future but does not receive the documents until he has actually paid for them. The reason is that airmailed documents may arrive much earlier than the goods shipped by sea.

The buyer is not responsible to pay the bill before its due date, but he may want to do so, if the ship arrives before that date. This mode of payments is less usual, but offers more settlement possibility.

These are still D/P terms so there is no extra risk to the exporter or his bank. As an alternative the covering scheduled may simply allow acceptance or payments to be deferred awaiting arrival of carrying vessel.

There are different types of usance D/P bills, some of which do not require acceptance specially those drawn payable at a fix period after date or drawn payable at a fixed date. Bills requiring acceptance are those drawn at a fix period after sight, which is necessary to establish the maturity date. If there are problems regarding storage of goods under a usance D/P bill, the collecting bank should notify the remitting bank without delay for instructions.

However, it should be noted that it is not necessary for the collecting bank to follow each and every instructions given by the Remitting Banks.