

Appendix-II

EXPORT FINANCING POLICY IN SELECTED DEVELOPED COUNTRIES

Export Financing System : West Germany

Banks in Germany do not provide finance to the exporters directly. It is available through credit Institution called AKA (Ausfuhrkredit Gesellschaft mbH). AKA is a credit institute backed by 54 German banks, providing finance for German exports since 1952. For medium and long term export finance to German Democratic Republic, an organisation parallel to AKA called GEFI offers its services. AKA acts only on applications received from German banks for export finance from their exporter customers. AKA provides finance for supplier's credit to the exporters under Plafond A and Plafond B, whereas Buyer's credit is provided under Plafond C. A member bank (54 banks) can apply to AKA under Plafond A and Plafond C for finance to their exporter clients, whereas any credit Institution in Federal Republic in Germany can apply under Plafond B to AKA for export finance for their exporter customers. The funds required for financing under Plafond A and Plafond C are available to AKA from member banks. Under Plafond B, AKA gets refinancing under special Rediscounting line from their central banking authority-Deutsche Bundes Bank. As a member of European Community, the Federal Republic of Germany is also bound by the Guidelines for officially supported Export Credits, called "CONSENSUS", which has been created by the OECD member countries with the aim of limiting competition by means of credit terms. It stipulates among other things minimum down payment and interim payments, minimum interest rates and

maximum credit periods.

The Federal Republic of Germany has entrusted HERMES Kreditversicherungs AG with processing the exporters' and in case of buyer credits - the banks' applications for export cover. Hermes cover is available for maximum -5- years. Hermes covers : Commercial risks - Insolvency of the foreign buyer/guaranter as well as protracted default.

Political risks - non payment resulting from war or from general government actions in buyer's country like blockage of funds, prohibition on transfer of funds etc.

Production risks - It can only be covered for goods which require special manufacturing or long manufacturing periods.

Foreign Exchange - If export contract is concluded in foreign risk Insurance currency, exporter may apply for this cover. The cover is available only for US dollars, Swiss Francs and Sterling pounds. For applying to AKA for any loan HERMES cover is compulsory. The repayment of loan are effected by the exporters through export proceeds.

Types of Export Finance

AKA, credit Institution for export finance is providing finance to the exporters under the various schemes. The application for finance is to be routed through the principle banker of the exporter. The application should contain the

details about :

- (a) export transaction ,
- (b) export Guarantee by Hermes,
- (c) about the borrower.

AKA grants finance to the exporters under various plafonds as under :

Plafond - A

It provides supplier's credit and Global credit. The amount of loan available depending upon the expenditure incurred for production and payment terms agreed in the contract. The maximum amount of finance available under this plafond is DM.2 billion. The margin kept for finance over here is 10 to 15 per cent which may be waived on recommendation by the exporter's bank. Global Kredit where finance is available for maximum 24 months for a small amount at a margin of 30 per cent. However, no maximum period is laid down for finance under plafond, but if period of loan exceeds 24 months, the finance should be covered by the export guarantee of HERMES, which may be waived, if repayment is found certain. The exporter borrower has an option to chose between variable and fixed interest rates. Variable interest rate is charged at the rate of 8 per cent per annum. Fixed interest rates fixed upto 5 years is charged @7.815 per cent per annum.

Plafond - B

AKA is providing supplier's credit to the exporters under this plafond. Any credit Institution in Federal Republic of

Germany can apply to AKA for finance to their exporter constituent, whether, they are consortium member of AKA or not. The amount of loan and period depends upon the expenditure incurred during the production process and/or upon the payment terms agreed in the supply contract. The maximum amount of loan available under this plafond is DM 4 billion. The margin kept for finance under this plafond is 30 per cent. But with a fixed interest rate loan the margin is kept for 20 per cent. The minimum period for which the credit available is 12 months and the maximum period is 48 months. The rate of interest charged for financing under this credit is at the rate of 5.75 per cent per annum for variable rates and at the rate of 6.5 per cent per annum for fixed interest rates fixed upto 5 years.

Plafond - C

It provides buyer's credit. AKA confirms this loan by concluding agreement between AKA and foreign buyer or its bank. It is also available for purchase of export claims covered by the guarantee from HERMES. For quick disposal under plafond C, a General loan agreement or Basic agreement is concluded with countries like Algeria, Bulgaria, Czechoslovakia, Israel, Yugoslavia, Turkey, U.S.S.R. and Hungary, since most of the terms have already been negotiated in an agreement. The maximum amount of loan available under this plafond is DM.12 billion. There is no stipulation for margin under this plafond, it depends on the case. The credit period is linked with time limit of HERMES guarantee. The loan should be covered by the guarantee from HERMES, which may be waived if repayment seems certain. Here

exporter may get the finance at preshipment stage provided buyer prepares to bare the interest from the date of disbursement of loan to the exporter. The loan under this plafond is disbursed to the exporter against the certificate from the foreign buyer for the satisfactory supplies. The intrest rates charged under this plafond is as under:

- (a) Variable rates @ 8 per cent p.a.
- (b) Fixed rates upto 7 years @ 7.875 per cent p.a.
- (c) Fixed interst rates fixed upto 10 years @ 8 per cent per annum.

Interest rates for more than ten years is determined in each case individually.

Moreover, combined financing under Plafond A and B is also given. The export proceeds are to be used first to repay plafond B loan. In principle supplier's credits are to be repaid out of proceeds from the export transaction concerned.

Export Guarantee

The Federal Republic of Germany has entrusted HERMES A G with processing exporters and in case of buyer's credit, the bank's application for cover and with issuing of Insurance policies. All policy decisions are taken by Government Committee especially established for this purpose known as IMA. The IMA meets every fortnight. On the numerous export transactions with order values upto DM.2 milion individual decisions need not to be taken, instead, those transactions are merely listed and subsequently decided upon comprehensively. For suppliers credit exporters themselves apply to HERMES for cover and then they

assign the same in the favour of lending bank. Whereas, in case of buyer's credit banks providing credit are applying to HERMES for cover. HERMES covers,

- (1) Political Risks.
- (2) Commercial Risks.
- (3) Production Risks.

All the risks are covered in Deutsche Mark. However, if the contract is concluded in foreign currency, HERMES covered for foreign exchange risk for U.S.Dollars, Swiss Francs and Pound Sterling.

The application fee charged by HERMES for export cover is linked with the contract value and the premium charged by them is depending upon the type of policy. HERMES may limit maximum amount of cover either economic and political situation of buying country is not satisfactory or HERMES has reached a high level of risk engagements in particular country. In the event of claim under Insurance policy, after completing grace period as fixed by HERMES, it reimburse upto 85 per cent of the claim in case commercial loss, 90 per cent of the claim in case of political loss.

Export Financing System : U.S.A.

The same type of commercial loans that finance domestic activities including loans for working capital and revolving lines of credit are available to finance export sales. However, there are several government programs for exports. A bank with experience in International business can advice the exporter choosing from the various programmes. Banks which participate in

this programme are the agents to apply on behalf of their exporter client. Hence, Government's various export finance programmes are worked through commercial banks. Through the Overseas Private Investment Corporation (OPIC), the Federal Government facilitates U.S. private investments in less developed nations. OPIC is an independent, financially self supporting corporation fully owned by U.S. Government with offices in Washington DC. The Foreign Agriculture Service (FAS) of the U.S. Department of Agriculture provides financial support for U.S. agriculture exports through the Food and Peace Programme and the Commodity Credit Corporation. It helps the export of agriculture products to the friendly countries on concessional credit terms.

Since 1 January 1985, 15 State Governments have authority to operate export financing programmes. The various programmes authorises both pre shipment and post shipment assistance in the form of loan to lenders and loan guarantees to exporters and their banks. For finance, the exporter has to approach states economic development agency.

Many Export Trading Companies (ECT's) and Export Management Companies (EMC's) can help finance of export in addition to acting as export representatives. Not only that, but large ETC's may purchase the goods on the spot from the exporters and thus eliminating the need for financing and other risks.

Export Import Bank of U.S.A. offers direct loans for large projects and equipment sales which requires long term financing. It guarantees loans made by U.S. and foreign Commercial banks to U.S. exporters and to foreign buyers of U.S. products and services through private insurance Association or Foreign Credit

Insurance Association (FCIA). Exim Bank provides both supplier's credit as well as buyer's credit. Under the firm programmes, Exim Bank provides with short term and long term finance to exporters through Commercial banks.

Finally, apart from various Government programmes and Exim bank programmes for financing U.S. exporters, private institutions are also coming up fast for financing the US exporters. The Private Export Funding Corporation (PEFCO), private institution owned by 62 investors, mostly commercial banks provides medium and long term finance of not less than US \$1 million, with no maximum limit. Certain companies known as 'Factoring Houses' purchase export receivables at 2 to 4 per cent discount price and help the exporters.

Export insurance is available through the private institution Foreign Credit Insurance Association (FCIA), appointed by Exim Bank of USA responsible for guaranting exports. FCIA covers 100 per cent of losses for Political risks and 95 per cent of commercial losses (non payment by the buyer due to insolvency). About 200 banks in U.S.A. have purchased master policies from FCIA which can insure all their loans to US exporters. Policies can also be available to the individual exporters for their export risks. FCIA Policies offer considerable protection, but they do not make exports completely risk free. The exporter is expected to exercise good credit judgement and to assume a portion of the commercial risks.

Export Guarantee

Export Import Bank of U.S.A. provides cover or credit insurance through private Institution called Foreign Credit Insurance Association (FCIA) which covers 100 percent losses for political reasons and 95 percent for commercial reasons. This Insurance cover encourages the exporter to extend credit or provide more favourable terms to the foreign buyer. It also provide cover to the commercial banks lending to the exporters. About 200 banks in U.S.A. have purchased Master Policies from FCIA which can insure all their loans to US exporters. Policies are also available for organisations other than banks such as Export Trading Companies, local economic development agencies to cover their exporter customers. Policies are also obtained by the exporters to cover their exports.

Exim bank also provides bank to bank line of credit guarantees to provide a cover for credit extended by US banks to foreign bank. Exim bank guarantee carry the full faith and credit of Federal Government. In the event of default, the guaranteed lender must file a claim within not less than 30 days and not more than 150 days after default. Exim bank will pay the claim within five business days after receipt.

Export Financing System : Japan

The institutional structure of export finance in Japan consists of the authorised foreign exchange banks. The Export-Import bank, the overseas Economic corporation fund, and the bank of Japan. The Bank of Japan, the Central Bank of Japan is active in financing preshipment and short term post shipment credits in

addition to fixing preferential rates for various types of export credits. The overseas Economic corporation fund is government financial institution established under the Overseas Economics Corporation Fund Law for extending loans to Japanese enterprises which independently or generally with others, undertake development project in overseas areas for which it is difficult to obtain funds from Exim bank or from other sources.

The foreign exchange transactions in Japan are controlled by Foreign exchange and Foreign Trade Control Law and Foreign Investment Law. Short term finance is available to the exporter through their bank and long term finance for the exports is available to the exporter jointly by the Export-Import Bank of Japan and their principle bank, with the former playing the leading role. Short term finance is available to the exporter at pre shipment stage as well as at Post shipment stage. The exporter may be extended finance by the bank even before concluding export contract under Interim Loans for export advance loan bill.

Co-financing

Exim Bank of Japan, in principle, extends credits to borrowers with commercial banks/or other financial institutions in Japan. The Bank's share in syndicate depends on the type of credit, items and specific circumstances of Japanese financial market. The borrower's principal bank is usually designated to serve as agent bank for syndication. Exim Bank of Japan extends both supplier's credit and buyer's credit for the Japanese exporters. Supplier's credit may be available in Japanese Yen as

well as in foreign currency. The application for credits from Exim bank should be made through exporter's bank.

The Ministry of International Trade and Industry (MITI) provides export cover under the present system, there are export insurance schemes available including General Export Insurance, mainly for protection against pre-shipment losses and overseas Investment Insurance designed to cover losses from Overseas investment. The medium and long term finance by Exim bank with city bank covers with Export Proceeds Insurance. From Oct 1, 1987 MITI came out with Intermediary Insurance which aims at coping with non-payment risk in case of intermediary trade between Japan and third countries. MITI covers for Commercial risks such as insolvency of foreign buyer etc. and political risks such as war etc. The export cover is assigned in favour of bank financing to the exporter as a security for finance.

TYPES OF EXPORT FINANCE - JAPAN

Exporters in Japan are financed by the banks at two stages

- (1) Pre-shipment finance.
- (2) Post-shipment finance.

The amount of margin kept on export finance links with the bank's policy. The interest rate apply for financing is 4.85 per cent per annum.

The bulk of the finance is provided at the preshipment stage in the form of discount of export advance bills. Finance is provided to merchant exporter for the purchase of goods and for the manufacture exporter for the procurement of raw material etc. for the manufacture of goods for exports. The bill drawn by the

exporter against himself and discounted by the banks are known as export advance bills. Under the Export advance bill system the Bank of Japan refinances the funds made available by the commercial banks either by rediscounting the bills or by making loans against the security of the export advances bills. The maturity period of the bills must not exceed six months. Export advance bills with a tenure of more than three months are accepted by the Bank of Japan as collateral against which loans are given while bills with tenure up to three months are rediscounted. The bills must be paid from the proceeds in foreign currencies or yen proceeds received in exchange of them or export proceeds received in free yen through the non-resident free yen accounts. The amount of bill must not exceed, in the case of merchant exporters, the funds which are necessary to make advances to the manufacturer or for the purchase of goods. The amount shall not be more than the FOB price of the export goods minus the profits of the exporters. In case of manufacturer exporters, the advance the advance should not exceed the funds necessary for the manufacturing, processing etc. of goods or the price of goods ordered or the value of the materials minus the profits.

The system of export usance bills aims at financing of export usance bills drawn in Japanese yen. The bills eligible for refinancing facilities are documentary bills accepted by the authorised foreign exchange banks and payable through non-resident free yen accounts. The usance bills drawn in yen with a maturity of less than three months from the date of acceptances are eligible for rediscounting facilities.

Medium And Long Term Export Credits

Export credit for medium and long term period is given by the Export Import Bank of Japan and commercial banks jointly. The main burden of medium and long term credits say about 75 to 80 per cent is borne by Export - Import Bank of Japan. The participation of ExportImport bank is assessed afetr deducting down payment and profit margin from the contract price.

So far as procedure for obtaining medium and long term finance is concerned, the exporter has to approach Exim bank, commercial bank and MITI. The exporter draws up a financing plan in consultation with his bank and has to ensure that terms and conditions of the contract are acceptable to the Export-Import bank and MITI. The exporter's bank forwarded the plan to the ExportImport bank and at the same time exporter applies to the MITI for export risk cover. For obtaining the finance at the preshipment stage, exporter draws, 90 days bill against himself and discount the same with his bank. But the bank allows finance here upto 70 to 80 per cent of the contract price as about 20 per cent down payment has been obtained already by the exporter from the foreign buyer. On shipment of goods the exporter discounts the bill as per agreement with ExportImport Bank and balance with his commercial banks. The amount of this bill offset the prefiancing credit received earlier. The system prevailing here is such that exporter has not to finance any part of exports from his own sources.

Exim Bank Finance

The Export Import Bank of Japan is a government financial institution established under the Export Import Bank of Japan Law No: 268/950. Exim Bank provides finance under two different schemes.

(a) Supplier's credit.

(b) Buyer's credit.

Suppliers Credit

The Bank extends supplier's credit to Japanese exporters to enable them to extend deferred payment credits to foreign buyers. The principle items eligible for these credits are plant and machinery, ships, aircrafts etc. It may be available in Japanese Yen as well as in foreign currency.

The application for this credit is to be made to the Exim Bank through exporter's bank. Technical service credits on long term basis also extended to the exporter. The amount of finance available depends upon the export contract. The Bank finance is available for 80 per cent to 85 per cent of the contract value. The finance here available within the range of 3 to 10 years.

Buyer's Credit

The Bank extends this credit to foreign co-operations to enable them to purchase Japanese goods. The credit also extends to the financial institutions which is called as bank to bank loans. The amount of finance depends upon the export contract. However, maximum finance available is to the tune of 85 per cent of the contract. The amount of finance is available for 3 to 7 years.

Security for finance by Exim Bank

- (1) The assignment to the Bank of the borrower's claim under Insurance.
- (2) The assignment to the Bank of the borrower's claim on export proceeds.
- (3) In some cases, mortgage on borrower's domestic asset or a bank guarantee.
- (4) For buyer's credit, a guarantee of central banking authority is required.

Interest

The interest rate is determined in accordance with OECD consensus for Supplier's Credit. In case of buyer's credit the interest rate shall be fixed through out the repayment period in all cases and determined in accordance with the consensus, with due consideration for such factors as the bank's cost of funds and market interest rates.

Over and above this, Exim bank also finance to Japanese entities to provide them with funds for overseas investment. Under the Overseas Investment Credit, Bank under certain circumstances may provide to certain countries to enable them to use the said fund for payment for the goods, equipment and technical services acquired from Japan.

Export Guarantee

The Ministry of International Trade and Industry operates insurance schemes to provide protection against the risks associated with exports or other international transactions,

since such risks are not covered by existing private insurance institutions.

Under the present system there are nine export insurance schemes available, including General Export Insurance, mainly for protection against pre shipment losses and overseas investment insurance designed to cover losses from Overseas investment. In cases such as exports of plants, ships and technical services, export proceeds Insurance (Medium and long term Export Credit Insurance) or technical Services Supply Insurance is provided when ;

- (1) export bills are settled on a deferred payment basis, or
- (2) Japanese banks provide foreign importers with buyer credits in conjunction with the bank.

Export Proceeds Insurance is thus provided to cover any possible losses due to certain events constituting political risks, such as war or internal disorder, or commercial risks such as bankrupts. Export Proceed Insurance coverage is a prerequisite for the Bank's Supplier's Credits. The bank requires the assignment of Export Proceeds Insurance as collateral security.

With the recent increase in number of international consortia formed for plant exports, it has become necessary for export insurance agencies of the countries of the participating firms to make joint insurance arrangements for assuring the appropriate coverage both for main contractors and sub contractors. Forming these consortia Japan has already concluded agreements for this purpose with purpose with eight countries, which are Belgium, France, Singapore, U.K., Netherlands, Austria, Spain and Canada.

MITI has put a new trade insurance system, Intermediary Insurance into effect from 1st October 1987. This system aims at coping with non-payment risk in case of Intermediary Trade between Japan and third countries.

Export Financing System : U.K.

Exporters in U.K. are receiving the finance from commercial banks against the Credit Guarantee of Export Credit Guarantee Department (ECGD). ECGD is a separate Department of the U.K. Government responsible to the Secretary of State of Trade and Industry. It provides its export Credit Insurance Policies under the terms of the Export Guarantee and Overseas Investment Act 1978. Section 1 & 2 of the said Act empower ECGD to provide guarantee to the banks providing export finance. ECGD formulates various schemes for financing to the exporters and are implementing the same through banks and financial institutions in a country. The banks do not provide finance to the exporters unless the said proposal for finance is approved by the ECGD. The exporters are receiving the short term, medium term and long term finance under various schemes of ECGD. ECGD also provides with buyer's credit. The bulk of Britain exports are sold on cash or short term credits upto 180 days. The policies to support short term credits are issued by the Insurance Service Group of ECGD based in Cardiff. The banks however have to fund the loan through short term money markets and no refinance facility is provided by ECGD. In case, if a bank has to bear any loss arising out of borrowing cost from the market and lending at a concessional rate of interest to the exporters, then the said difference is borne

by ECGD. If the exporter defaults in payment on any amount with interest and if such defaults remaining unremedied after three months, ECGD pays to the lending bank full amount plus three months interest. Banks and other financial Institutions accepts ECGD policy of exporter as collateral security for finance without further recourse to the company's assets. As U.K. is a member of OECD, ECGD is also bound by the Organisation for Economic Corporation and Development (OECD) consensus on export credits.

ECGD provides Insurance cover both to the exporters and to the lending bankers. It provides with commercial and political risks. ECGD'S guarantee can give access to fixed rate finance, often at a very favourable rate of interest. So we can conclude that without ECGD support in U.K., banks may only be willing to finance exporters at high interest rates or with tight security.

Types of Export Finance - U.K.

Export Credit Guarantee Department of U.K. Government formulates various schemes for financing to the exporters and the said are implemented through banks and financial institutions.

(1) Lines of Credit

ECGD's Project Group Lines of Credit support finance made available by U.K. Commercial banks for major projects or smaller capital goods or Services contracts. A bank in U.K. makes a loan available to the overseas borrower. The loan funds are used to make payment to the U.K exporters for the supply of goods and services to the overseas buyer under the contract approved by ECGD. So its a type of buyer's credit. Here if the borrower fails

to pay, ECGD will pay to the bank in full. There are two types of lines of credit.

(a) General Purpose Lines of Credit

Here the loans are given to the Overseas banks which ultimately used by the banks to finance the variety of contract of buyers. This is also used when one buyer is purchasing a wide range of unrelated goods from U.K.

(b) Project Lines of Credit

This type of finance available when a specific project or identified programme requires a purchases from number of U.K. exporters. Here the contract value is higher than General purpose lines of credit.

In lines of credit finance U.K. bank and the overseas borrower enters into loan agreement with repayment guaranteed by ECGD. The limit for finance under this is pound 20,000/- to pound 1,50,000/-. The margin provided for finance is 15 per cent. The finance is available for two to five years. The interest is charged as per OECD Consensus rate or at Fixed Rate Export Finance Scheme of ECGD. The minimum fixed interest rate charged is laid down by consensus on the basis of their country categories. The Fixed Rate Export Finance (FREX) scheme also ensures that not only the bank's fluctuating borrowing cost is met with but that bank also gets a return on its lending. The U.K. Bank is responsible for payment of ECGD premium.

Buyer's Credit

ECGD's buyer's credit scheme benefits all the parties involved. Here, overseas buyer has been extended finance at a

fixed, often very favourable rate of interest. ECGD guarantees the lending bank both for full payment of loan and 3 months return on its fund. The exporter on his early part of negotiation of export contract applies to the ECGD for buyer's credit and nominate the bank to act as a lender which is authorised under the Banking Act 1987 and acceptable to ECGD. Once both the contract and loan are effective, the exporter is paid from loan as he fulfills the terms of his contract with the buyer. The exporter enters into premium Agreement with ECGD for payment of premium in accordance with ECGD requirements. The margin of 15 per cent is kept for the finance. The amount of finance under buyer's credit is ranging from pound 1 million to pound 5 million. The interest charged is governed by the OECD consensus rules.

In buyer's credit, if exporter fails to perform under the contract, there is risk involved that overseas buyer will not repay the loan. Here ECGD is liable to pay the bank for any buyer's default. But at the same time here it is not intended that ECGD should suffer loss due to breach of contract by the exporter. ECGD therefore has right to take recourse to the exporter- This means ECGD can claim from the exporter some or all of the money paid by ECGD to the lending bank. If exporter's worth is not sufficient, its parent company's signature is taken in premium agreement for recourse.

Project finance

ECGD has also formulated the scheme for project financing ventures, often referred to as Build Own Operate Transfer Schemes. Three cover options are offered to banks willing to finance U.K.

capital supplies to such ventures; Standard political risk cover, additional political risk cover against breach of specific undertakings by host government and commercial viability cover against a short fall in earnings that prevent repayment of bank loans. The minimum eligible loan value is pound 20 million. Here bank gets unconditional guarantee from ECGD. The margin of 15 per cent is kept for finance.

Aid and Trade Provision (ATP)

Many developing countries requires some form of aid from the countries from which they purchase the goods. With this in mind U.K. Government's Aid and Trade Provision aims to help exporters to win contracts in the international market. Under the soft loan facility introduced in 1985, long term low interest loans available for suitable projects in aid worthy countries. ATP support usually takes the form of a grant for part of project cost as minimum 35 per cent of the cost of project and in least developed countries it goes upto 50 per cent. The finance is provided to the receipient country by U.K. commercial banks with a repayment guarantee from ECGD and interest support from ATP. As this scheme is regarded as aid loans rather than export credits, the normal consensus rules governing length of credit, minimum down payment and interest rates do not apply. Three Government Departments are involved in ATP Scheme, ECGD, the Overseas Department Administration (ODA), and the Department of Trade and Industry.

Moreover, supplier's credit and short term finance schemes are also available to the U.K. exporters under the policy issued

by Insurance Service Group, a branch of ECGD for export credit. The post shipment finance is also available on the strength of ECGD Guarantee assigned by them to their banker. Here exporter can get finance upto 90 per cent of the goods supplied from the bank. The exporters in U.K. are obtaining the finance from the banks and financial institutions by various modes as below :

Overdraft facilities

Exporters are getting the preshipment finance by means of overdraft in the ordinary course of business against the banks assessment of the credit worthiness of the exporter customers. This is secured advance by the banks against letter of hypothecation, pledging of drafts, shipping documents. Shipping documents to be routed through it for collection and relevant goods security for any advances made.

Negotiation of bills

Bank may purchase the cheque received by the exporters as a advance payment against exports. However, in case of bills presented to the bank against exports, the bank may made the payment, immediately and negotiate the bill. But this facilities from the bank depends on the credit worthiness of the exporters and the banks normally retains the rights of recourse to the exporter. It is also customary to assign to the bank any ECGD policy issued in respect of the shipment.

Authority to Negotiate

A part of exports from U.K. is financed under what is called authority to negotiate. Under this method, the importer's bank

arrange with its branch at London or Correspondent bank at London to issue a credit and the issuing bank undertakes to negotiate bills drawn by the exporters on the overseas buyer. This 'Authorises to negotiate' are available to the exporters on both with or without recourse basis. This documentary bills drawn in accordance with the terms and conditions of the credit are presented to the Bank at London which buys them for cash and send them to the importer's bank.

Irrevocable Letters of Credit

Banks in U.K. are negotiating the bills drawn under the letters of credit opened by the importer's bank and make the payment immediately for the exporter.

Acceptance Credit

This facility provided to the British exporter by bank or by an accepting house. Companies of good credit standing and a steady export business can obtain an acceptance facility from the accepting house or a bank. This is type of revolving credit wherein the accepting house or the bank undertakes to accept the bills drawn on them (usance) by the exporter upto an agreed maximum limit. This facility may be granted for a fixed period, say one year during which any bill maturing and paid off may be replaced by other bill. The accepted bills are easily discountable in the London money market. For exporter of high credit standing, a clean or unsecured acceptance may be granted, while other exporters may be required to furnish security which generally takes the form of hypothecation of the relevant shipping documents.

Advance Against Bills

Many a time, exporters in U.K. are granted advance against the bill of exchange drawn by them on importers. This advance may be granted by the bank against the security of bills tender for collection. This type of credit is known as, "London Bank Export credit ".

Selling Accounts Receivables to a Factor

Here the exporter may sell their account receivable to a factor. No doubt, the role of factor in export financing is not very significant in U K . The cost of this type of financing is higher than the cost of bank finance and it is generally 2 to 3 per cent higher than the bank rate.

Export Guarantee

U K. exporters are receiving the export guarantee from the Export Credit Guarantee Department. It is a seperate Government Department. It gives services to the exporters since last 70 years. It helps British exporters to overcome many of the risks in saving overseas. Under the Export Guarantee and Overseas Investment Act 1978. ECGD empowers to give guarantees in connection with the export manufacture treatment or distribution of goods, the rendering of services or any other matter which appears to be Secretary of State (of Trade and Industry) related to the purpose of encouraging the trade with other countries. It also provides guarantee to the bank financing to the exporters The premium charged by ECGD is very competitive, despite the risks faced in so many difficult markets. In majority schemes

U.K. Bank is responsible for the payment of ECGD premium. An initial non-refundable charges of at least £.5000 is payable upon signature on the premium and Guarantee Agreement between the bank and ECGD. The charge is then allocated towards premium payable as contracts are approved. The premium is charged on each contract. It is calculated as a percentage of the amount of finance to be advanced for a particular contract. The percentage will vary depending on the interest rate and repayment terms which are applicable. The premium range from 0.7 per cent to 1 per cent annually and they are fixed from the outset of the insurance regardless of any subsequent deterioration in the host country's investment climate. The ECGD Guarantee covers the commercial and political risks. It also provide a cover against a exchange rate movements during the period between the date of tender and award of contract. The ECGD cover is available normally for maximum 15 years subject to renewal every year.

Export credit insurance is often the pre-requisite for raising finance to cover export shipments. Banks and other financial institutions will accept ECGD insurance as sufficient collateral for overdrafts to finance export shipments, generally from the date of shipment, without further recourse to the companies' assets.

ECGD operates its credit insurance policies in a commercial way and has to balance its portfolio of insurance in terms of geographical spread, length of credit terms and category of industries. It relies upon the advise of two sets of advisors before it sets limits for underwriting. Business that can be taken normal " Commercial " criteria is underwritten on the

advise of an adversary council made up of bankers and businessmen.

Short Term Cover

ECGD short term insurance policies are much popular within U.K. exporters. The bulk of Britain exports are sold on cash or short term credit upto 180 days terms of payment. These policies are issued by the Insurance service group based in Cardiff. Short term cover can apply from the date of despatch or from the date of contract. Premium is payable in two parts- an annual fee to cover use of the credit limits service and a monthly premium on the business declared.

Short term insurance covers normally 90 per cent for commercial risks and 95 per cent for political risks. In the fluid political and economic situation of many parts of the world, cover may have to be withdrawn or the premium increased at short notice. ECGD also assist in the recovery action from foreign buyers and may help to meet legal expenses incurred. ECGD employs overseas lawyers and experienced debt collectors on its customers behalf, with the aim of getting back as much money as possible.

Claims under the policies are paid by ECGD according to the provisions of the guarantee. The time at which claims are paid varies according to the cause of loss.

Project Guarantees

Project exporters can insure their one off overseas sales with specific guarantee. The percentage of loss is normally 90

per cent of any amount suffered. The specific guarantee can apply from the date of despatch or more normally from the date of contract. The latter enables ECGD customers to protect themselves during the lengthy manufacturing period which could be months or years.

During the pre-credit (manufacturing) period the exporter is covered against loss on a cost - incurred basis due to the insolvency of the buyer or frustration of the contract for reasons beyond the U.K. company's or the buyer's control.

Project exports depend on financing packages arranged with the backing of ECGD credit insurances. The specific guarantee can be assigned to the exporter's bank or a specific bank guarantee can be issued to the bank financing the contract. The bank gets an unconditional guarantee that in the event of default, it will receive the principal sum plus the interest for 90 days. Here, U.K. exporter must be recourse worthy and default must be due to non-performance of the supply contract by the exporters. ECGD also had a policy for buyer's credit. Here, the British bank lending the money receives an unconditional guarantee from ECGD that in case of default by the buyer or his bank, repayment will be made by ECGD 90 days after default. The cost of buyer credit guarantee in the form of ECGD's premium is normally met by the supplier and therefore built into the contract price.

Other ECGD facilities include cover against performance bonds or guarantees, where it insured the contracts. It can also give protection for bid bonds, where only condition is that ECGD covers the contract.

Since 1972, ECGD insure the new investment made overseas. ECGD covers a wide range of new investments such as plant, share holdings, factories, agriculture or tourist developments made abroad. The cover is provided against the risk of war, restrictions on remittances and other risks outside the control of the investor. Overseas investment insurance is only available to U.K. companies and not to the U.K. branches of foreign firms.