

**Indo-Sri Lanka Credit Agreement dated
January 29, 2001, for US\$ 100 million
A.P.(DIR.Series) Circular No.36 (June 28, 2001)**

**RESERVE BANK OF INDIA
EXCHANGE CONTROL DEPARTMENT
CENTRAL OFFICE
MUMBAI - 400 001**

A.P.(DIR.Series) Circular No.36

June 28, 2001

To

All Authorised Dealers in Foreign Exchange

Dear Sirs

**Indo-Sri Lanka Credit Agreement dated
January 29, 2001, for US\$ 100 million**

The Government of India have extended a line of credit of US\$100 million (U.S.Dollar One hundred million only) to the Government of the Republic of Sri Lanka under a credit agreement entered into between the two Governments on January 29, 2001. The credit of US\$ 100 million will be disbursed over a period of three years. After utilisation of the first tranche of US \$ 45 million, a further tranche of US \$ 30 million will be made available during the second year on the same terms and conditions and will be incorporated in a separate agreement. Similarly, third tranche of US \$ 25 million would be made available during the third year on the same terms and conditions by way of another separate agreement. The credit of US \$ 45 million disbursed in the first year, will be available to the Government of the Republic of Sri Lanka for importing from India capital goods of Indian manufacture including original spare parts and accessories purchased together with the capital goods and included in the original contract as also consultancy services, consumer durables and food items – sugar, wheat flour, rice, red split lentils, wheat grains – as mentioned in the Annexure. The contents of the Annexure may be modified by way of additions, deletions or substitutions from time to time as may be mutually agreed to between the two Governments. The credit will not cover third country imports. The export of goods and services from India and their import into Sri Lanka under the line of credit shall take place through normal commercial channels and will be subject to the laws and regulations in force in both the countries.

2. The broad terms and conditions of the line of credit are as under:

- (a) All contracts will be subject to the approval of the Government of India and the Government of Sri Lanka or any agency authorised for this purpose by the Government of Sri Lanka and shall contain a clause to that effect. All contracts shall be sent to the State Bank of India, New Delhi, who will obtain the necessary approvals from the Ministry of Finance, Department of Economic Affairs, Government of India. After each contract has been approved, intimation thereof

will be sent to the Government of the Republic of Sri Lanka or their designated agency.

- (b) The credit will be available for 90 per cent of the f.o.b. value of the eligible goods, services and food items to be exported from India as mentioned in the Annexure. The 10 per cent of the f.o.b.value shall be paid by the importer in U.S. Dollars at the time of opening of the letter of credit. Accordingly, letters of credit should specify that 10 per cent f.o.b. value shall be met out of the remittances from Sri Lanka while the balance 90 per cent shall be financed from the credit. The value of the contract should be expressed in U.S. Dollars.
- (c) All disbursements under the credit shall be made under letters of credit opened by banks in Sri Lanka. All letters of credit will be advised by banks in Sri Lanka to the State Bank of India, New Delhi, for onward transmission to the exporter/s either direct or through another bank in India, if any, nominated by the exporters. Normal commercial practices followed in respect of advising payments under letters of credit will be adopted to ensure that the remaining 10 per cent of the amount of the letter of credit is received in U.S. Dollars. All claims to the State Bank of India for payment of 90 per cent of the f.o.b. value will need to be supported by a certificate of the negotiating bank that the 10 per cent amount directly payable has been received. The letters of credit should be supported by a copy of the contract and should contain the following reimbursement clause:

“ Reimbursement for 90 per cent of the f.o.b. value of the contract shall be provided by the State Bank of India, New Delhi out of US\$ 45 million credit extended by the Government of India to the Government of the Republic of Sri Lanka. The letter of credit is negotiable after State Bank of India has issued an advice that it is operative. The letter of credit will be made operative by the State Bank of India after verifying that the reimbursement from the credit is sought for 90 per cent of the f.o.b. value only and it will be the responsibility of the negotiating bank to ensure that the remaining 10 per cent of the amount of the letter of credit is received in U.S. Dollars. All claims to the State Bank of India for payment of 90 per cent of the f.o.b. value will need to be supported by a certificate of the negotiating bank to the effect that the 10 per cent directly payable has been received.”

3. Contracts concerning capital goods including original spare parts and accessories purchased together with the capital goods forming part of the original contract to be financed under the first tranche of credit should be signed and relative letters of credit established on or before December 31, 2001, and the full amount be drawn under the credit on or before December 31, 2002. In regard to consultancy services, consumer durables and food items, contracts, to be financed under the credit agreement, should be signed, relative letters of credit established and the full amount drawn on or before December 31, 2001.If the full amount is not drawn by the aforesaid dates, the balance will be cancelled and the final instalment of the repayment to be made by the Government of Sri Lanka shall be reduced accordingly, except as may otherwise be agreed to by the Government of India.

4. Shipments under the credit agreement should be declared on GR/SDF/SOFTEX Form with prominent superscription reading “Exports to Sri Lanka under Credit Agreement dated January 29, 2001, between the Government of India and the

Government of the Republic of Sri Lanka.” The number and date of this circular should be recorded on the GR/SDF/SOFTEX Form in the space provided therefor. On receipt of the full payment of bills in the manner indicated above, authorised dealers should certify duplicate copies of the relative GR/SDF/SOFTEX Form and forward the same to the concerned office/s of Reserve Bank in the usual manner.

5. Ordinarily, no agency commission shall be payable in respect of exports financed under the line of credit. However, Reserve Bank may consider on merit, requests for payment of commission upto a maximum extent of 5 per cent of the f.o.b. value in respect of capital goods which require after sales service. In such cases, commission will have to be paid in Sri Lanka by deduction from the invoice value of the relevant shipment and the reimbursable amount will be 90 per cent of the f.o.b. value minus the commission paid. Approval for payment of commission should be obtained before the relevant shipment is effected.

6. Authorised Dealers may bring the contents of this circular to the notice of their constituents engaged in exports to Sri Lanka.

7. The directions contained in this circular have been issued under Section 10 (4) and Section 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999). Any contravention or non-observance of these directions is subject to the penalties prescribed under the Act.

Yours faithfully

P.K. BISWAS

Chief General Manager

**Nature of goods referred to in India–Sri Lanka
Credit Agreement of 2001**

1. Capital goods (along with original spare parts and accessories purchased with the capital goods and included in the original contract).
2. Items eligible for coverage under this credit also include consumer durables, consultancy services and food items – sugar, wheat flour, rice, red split lentils, wheat grains.