CHAPTER VII

PROBLEMS FACED BY THE EXPORTERS

INTRODUCTION

"Excellence is not a destination; it is a journey". To stabilise the country's balance of payment position and International credit rating Government of India embarked on a policy of import compression, increase exports, and tight money policy including credit restraints. As the position slowly improved economic and fiscal measures were initiated to open up the economy to the world. The situation is confusing to an average Indian mentally acclimatised to the idea that equitable development of the economy requires a protected domestic market. Inflow of foreign Investment was felt to lead to economic exploitation by foreigners, with memories of East India Company lurking in the back of everyone's mind. In this configuration the average Indian might feel that exports should be increased so that we can earn foreign exchange but it is not absolutely critical. This approach is shared by Indian bureaucrats and Indian bankers for whom concessional interest rates are also a factor to be taken into consideration. Now the situation appears to be changing domestically with the advent of liberalisation. India could think of adopting an outward-oriented development strategy on which exports are the cornerstone of growth.
Export finance refers to the financing of the goods from home country port to the foreign port. The export financing begins with as soon as an export order is received and accepted because the manufacturing activity starts with the confirmation of export order. Export finance constitutes payment methods and credit benefits available to an exporter both at the pre-shipment and post shipment levels.

The determination of credit policy is more important than any other element of an export policy. Credit is the purchasing power not derived from income but created by financial institutions either as an offset to idle income held by depositors in the banks or as a net addition to the total amount of purchasing power.

The objective of this chapter is to enquire into the problems of exporters with a focus on their financial aspects. This chapter covers mostly the problems encountered by the exporters which are related to the credit policies of the commercial banks. It is also devoted to those aspects of commercial banks which are related to their operational nature, viz. to the style of banks functioning.

To study the problems of exporters two products were selected.

- Cut and polished granite
- Gem and Jewellery.
These are the products identified in thrust areas as they are large foreign exchange earners or have the potential to earn large share of foreign exchange. To analyse the problems of exporters different aspects of credit policies were taken up one by one and then product wise analysis is carried out.

The exporters conventionally categorised as manufacturer exporters and merchant exporters. But majority of exporters are manufacturer exporters. In the overall analysis it is found that each exporter had some problem or other while looking at the overall credit policy including the non fund services of banks.

COMMERCIAL BANKS SERVICES TO EXPORTERS

Commercial banks-public, private or foreign are the institutions which the exporters look upto for financing the production and marketing.

For business carried at home commercial banks give loans and advances to the entrepreneurs at different stages at the interest rate prevailing in the market. But for conducting business abroad Government has provided for subsidised financing which is given out at concessional rate of interest compared to the rates prevailing in the market. The main components of subsidised export finance are called pre-shipment or packing credit and post shipment credit. Preshipment finance is essentially a working capital credit. This credit is provided at a concessional interest rate for a specified period.
Similarly postshipment credit is the advance given by the banks after the goods have been loaded on board. These are given for a specific time period and for the transit period against demand bills and usance bills. Apart from these commercial banks also provide ancillary services to the exporters which comprise market intelligence report. Status report for the buyer, foreign exchange regulations of the importing country and guidance in preparation of documents. The above three main services are rendered by commercial banks towards export finance.

**PROBLEMS FACED BY EXPORTERS**

Specific problems faced by the exporters in availing the credit facilities are

**Preshipment financing**

- **Credit limits**: Margin requirements stipulated by the banks are high. In the event of an increase in export orders exporters require larger credit limit whereas banks generally fix limits on the basis of past export performance. Exporters also reported that procedures of sanctioning limits are cumbersome. Banks' insistence on hypothecation is another factor which discourages exporters from borrowing from the banks and thereby affects exports adversely.
• **Duration of packing credit:** Exporters find the packing credit duration rather inadequate.

• **Interest cost of Packing Credit:** The existing interest cost of packing credit to be high as compared to interest rates for packing credit abroad.

• **Loss of Export Orders:** Apart from inadequacies in quantum, time limits, and high packing credit cost, procedural delays also occur in granting of packing credit. This grievance assumes greater importance in view of its adverse impact on exporters' export commitment. Exporters reported loss of export orders. The procedural delays specially relating to handling of L/C documents are a major factor.

**Postshipment credit**

• **Credit Limits:** Exporters do not find the postshipment credit limit adequate.

• **Duration of credit:** The exporters find the period of credit to be insufficient.

• **Interest cost:** As in the case of preshipment credit post-shipment interest rates are also reported higher than those prevailing in competing countries.

• **Loss of Export orders:** Some exporters have sustained export order losses in the postshipment credit. The banks had fixed inadequate adhoc limits on
post shipment credit and IPRS (International Price Reimbursement Scheme) claims could be realised only after a long period. This resulted in heavy interest charges owing to penal rates. Moreover banks attitude is non-cooperative.

OTHER BANKING PROBLEMS FACED BY EXPORTERS

Delay in despatch (or) handling of export bills. Poor follow up in respect of realisation of bills.

Indifference from bankers on follow up poor inter-banking arrangements between overseas and Indian banks. Indifference on the part of bank to claim interest for payment received late due to the fault of remaining overseas bank.

L/Cs are not transmitted to the exporter immediately and L/C documents are not attended to properly. Due importance is not given to the job relating to handling of L/Cs.

Release and renewal of credit facilities is delayed due to bank's internal formalities. There are delays even for adhoc facilities.

- Bank guarantees take time.
- Limits are inadequate.
- Errors in transmitting document
- and information, mishandling of documents.
- Important circulars from RBI are never circulated to exporters.
- Many staff members coming from rural / semi urban branches do not have adequate knowledge of foreign exchange regulations.
- Banks require so many unwanted paperwork before and after the grant of limit.

PROBLEM AREAS OF COMMERCIAL BANKS

The banks complained that they face lot of problems while processing or negotiating export related documents.

- In respect of preshipment credit

The exporters are submitting the incomplete orders. Hence the end use of credit is not ascertained.

Most of the exporters do not submit the stock statements. This leads to irregularity of inspection by banks.

The detailed information for utilisation of released packing credit is not submitted by the exporting firms. Therefore proper follow up is not done in the case of packing credit advance becoming overdue.

Export orders are not confirmed (or) orders received by telex at the exporters. Overdues are not reported to the controlling office (or) ECGC at the
bankers end. Delay in receipt of L/c order cancellation of export orders by the exporters.

In respect of Post-shipment credit

Export certificates are not issued in time because shipping schedule is not adhered to by the exporters.

Presentation of documents after expiry of L/C leads to improper follow up action by banks.

Delay in shipment of goods by the exporters.

Insurance cover and declaration is obtained after the shipment of goods.

Sometimes credit overdrawn by the exporters description of goods is not as per L/C.

Inconsistency in documents.

OTHER PROBLEMS

Bankers give the following reasons that can be attributed to exporters for losing opportunity to increase or improve exports.
Inadequate knowledge/expertise to deal with their banks, suppliers and foreign buyers. No subsequent improvement in the quality of exported goods to compete with exporters of similar goods. Regular / periodic market evaluation is not conducted.

Short comings in preparation of proper documents.
Foreign buyers creditability is not ascertained.
Delay in delivery of goods.

SUMMARY

In this chapter the problems of the two selected industries relating to bank credit have been discussed. Appropriate suggestions to overcome such problems are made in the next chapter.