INTRODUCTION

The economic development will in future require large funds for the promotion of exports. One of the major contributory factors for promotion of export trade in the availability of special finance both at pre and post shipment stages.

In this connection all the financial institutions including government have to develop a system or philosophy of conduct and principle to be practised through an agreed action programme.

In the words of Narasimham. "the time is opportune for India now to consider further measures of financial deregulation and move towards financial liberalisation in a series of sequenced and structured steps as was done in the last decade in Korea rather than sudden dismantling of controls which as the experience of Latin American countries demonstrated could be counter productive" ¹

The commercial Banks occupy a dominant place in the Indian economy for promotion of exports. They mainly deal pre and post shipment credit. This

¹ Op. cit., p.18
study is confined to preshipment credit and postshipment credit. Preshipment credit is mainly granted for shipment of goods to foreign importers.

The present study has been undertaken to study the export financing by commercial banks in Tamil Nadu. The study has been taken at two levels. One is at the commercial banks level i.e., loans granted by commercial banks in Tamil Nadu and the other is at the exporters level.

The exporting industries taken for this study are granite industry and Gem and Jewellery industry in Tamil Nadu.

This study in Tamil Nadu has been undertaken with the following main objectives.

- To assess the extent of availability adequacy and promptitude of the finance.
- To ascertain the effectiveness of the provision of concessional credit in order to make the export internationally competitive.
- To study the various problem areas relating to export financing. Since Tamil Nadu contributes over 30 percent in the total exports of Granite and considerable contribution by Gem and Jewellery industry, it was selected for the study. A sample of 9 commercial banks and 30 exporters in each sector have been selected using stratified random sampling method.
The data were collected from the records of commercial banks head quarters and its branches and questionnaires were issued to exporters selected for this study.

The different analytical procedures used in the study were log linear regression analysis, t test and analysis of variance. The following is the summary of findings.

FINDINGS

The commercial banks in India have helped the exporters in terms of credit. The commercial banks have progressed well in all aspects. The growth of their credit during the period 1989-90 to 1993-94 has been spectacular. The progress made by the commercial banks in Tamil Nadu is appreciable.

- The percentage of credit provided by commercial banks showed an increasing trend. During the year 1993-94 the credit increased.
- On a selective basis exporters have been permitted to maintain foreign currency accounts with designated branches of banks in India. Further the exporters have been in a position to raise foreign currency overdrafts/lines of credit from banks abroad for financing the imports towards export purposes. They are also permitted to maintain foreign currency a/cs with banks abroad.
• Banks have been permitted to give loans to the exporters against their duty draw back entitlements claimed by them based on "All India Rate" endorsements by requisite authorities.

• It is observed that majority of the exporters have not changed their banks for the purpose of export finances. They have continued to avail the credit facilities with the same bank with whom they began. In the descending order these reasons are good service, acquaintance, enterprising nature of banks and good will.

• Packing credit running account facility has been extended to all commodities by RBI. The Banks have been permitted to extend pre shipment credit for a period beyond 180 days but upto 270 days in cases where exporter has not been in a position to ship the goods within 180 days for reasons beyond his control. Further authorised dealers ab initio grant packing credit upto 270 days in respect of commodities which would need credit for such longer duration prior permission from the RBI would not be needed in such cases.

• A new scheme known as post shipment export credit dominated in foreign currency (PSCFC) has been introduced. Under this scheme the post shipment credit given by commercial banks will be in foreign currency (US dollars). This means that although the exporter will be paid the Indian rupee equivalent of export bills the indebtedness of the exporter to the bank would be designated in foreign currency. The implication is that the rate of interest payable by the exporter may be at a lower level compared to rupee finance. The rate of interest on such credit will be determined by the RBI on the basis
of interest rates and other conditions prevalent in the international financial markets from time to time.

The added advantage of the scheme is that the banks on such exposure would get finance from RBI at the accelerated rate. At present such finance is provided at concessional rate of 6.5 percent per annum.

**CREDIT GRANTED BY SAMPLE COMMERCIAL BANKS**

Commercial banks in Tamil Nadu are encouraged to grant loans to exporters as done in other states. Bank credit encourages exports. On this premise the following hypotheses have been formulated and tested in the study.

- Preshipment credit promotes exports
- Postshipment credit promotes exports

The above two hypotheses have been tested applying log linear regression analysis. The findings accepted the two hypotheses.

The commercial banks contribution to the export finance has been studied applying the analysis of variance. Eight Nationalised banks and one private sector bank financing granite industry have been taken. In the gem and jewellery sector eight nationalised banks have been selected for this study.
In this context, the finding is that there is significant difference in the provision of preshipment and postshipment credit among the sample banks in both granite and gem and jewellery industries. Besides the above two main findings, the following findings have also been made.

Banks need to adopt flexibility with regard to packing credit in individual cases because manufacturing costs often escalate. According to exporters such flexibility is lacking.

- Banks need to adopt flexible attitude towards duration of credit. At times exporters encounter situations in which production takes longer time to materialise.
- Export order losses should be avoided at any cost. Every single exporter big or small is a contributor to country's foreign exchange earnings. Utmost care and urgency need to be exercised in advising and handling L/C and other related documents such as export bills, presentation and realisation of which should be done fast.

SUGGESTIONS TO IMPROVE EXPORT CREDIT BY COMMERCIAL BANKS

Planned Relaxation in the Method of Lending

The credit limits sanctioned to an exporter would be the aggregate of packing credit limit and foreign bill discounting facility (i.e., liability of non
LC demand/usance bills). The credit limit for a large borrower beyond Rs.10 lakhs would be assessed according to the method of lending recommended by the Tandon Committee. Under this system the exporter would have to progressively bring higher net working capital (NWC) to meet the working capital gap (WCG) as the exporter moves credit limit from Rs.10 lakhs to Rs.50 lakhs. NWC is stipulated at 25 percent of WCG to limit above Rs.50 lakhs. NWC is stipulated at 25 percent of current assets to NWC stipulated as 100 percent of core current assets plus 25 percent of real current assets. This is practically discarded by Indian Banks. The expectation is that the current ratio under the said methods of lending would accordingly go up from 1.17 to 1.33 and to 1.79 (say).

The Tandon Committee in its report has however recognised that relaxation in these stipulations might become necessary in the larger interest of the economy and has indicated as follows: "The concept of bank credit forming only a small portion of the WCG could be used as an instrument for influencing the directional flow of credit. It should be possible for the concerned authorities to define from time to time the order of priorities in the economy for different industries and visualise monetary authorities laying down different scales of financing as percentage of WCG for different classes of industries as an important instrument for aligning credit with the priorities for industries".2

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Accordingly in view of the importance attached to exports the monetary authority (RBI) has permitted a relaxation in the scale of financing for exporter customers by allowing export receivables to be excluded from current assets while arriving at the minimum stipulated NWC. In effect this means that the proceeds of export bills purchased/discounted become immediately available to the exporters in full without any margin for liquidating the EPC and drawing fresh EPC to recycle funds into the business. From the banks point of view easy payments of export bills renders such negotiation safe enough to justify the lack of margin. The RBI relaxation has meant that a large exporter unlike a domestic borrower need not maintain a current ratio of 1.33 even under the second method of lending. The current ratio even goes down to 1.25. Hence EPC should be taken out of the preview of the MPBF.

**PRESHIPMENT FINANCE**

- A measure of credit requirements should not be rigidly based on credit authorisation scheme (CAS) forms / methods of lending.
- A measure of flexibility could be introduced whereby genuine needs of the exporter could be met by planning in advance without comprising the banks interest. Such an approach of sanctioning a stand by credit limit would need a sharp credit appraisal and clear focus on the risk involved. The gut feeling of the banker would thus become paramount in view of its close knowledge of the case. The stand by credit limit could be given for small medium and large exporters.
Lending norms should not apply to exports. Stocking patterns should be allowed to reach any levels required genuinely by the exporter. Credit should be made available according to compatible margins required from the exporter.

Higher delegation of powers could be given for EOUs. This could be justified as control and follow-up is easier for self liquidating EPC advances time bound to a period of 6 months.

The rate of interest should be concessional even beyond 180 days provided export takes place. Reporting to RBI for extending the due date beyond 180 days should not be required, if the banker is satisfied about the case. The matter should be left to the bankers discretion. However EPC, must be, extinguished by exports only. This aspect must be negotiated at a joint meeting of bankers, exporters RBI and finance ministry officials.

Exporters are eligible for import entitlements by way of REP licences/advance licences against imports. The import entitlements in the case of large exporters are quite sizeable sometimes and would, if fully, availed exceed the credit limits sanctioned based on earlier assessment. Bankers should endeavour to align credit limits with the import entitlements whenever applicable.

Export credit should be brought within the purview of priority sector lending and quantitative targets say 10 percent of the total bank credit should be fixed for the same.
- Norms for appraisal for all exporting units in terms of financial parameters like current ratio, Debt equity ratio debt service coverage ratio etc. should be relaxed.
- Risk exposure ceiling norms (25 percent of banks capital and free reserves to a single borrower) in respect of lending should not be made applicable for exporting units.
- Banks should be explicitly prohibited from taking collateral security while financing the exporters.

**POST SHIPMENT CREDIT**

Postshipment credit is extended by negotiation of foreign LC bills, purchase of foreign bills, discounting of foreign usance bills or making advance against foreign bills for collection. The proceeds of bills are adjusted against the packing credit advance availed and the exporter is to draw EPC again for further exports. Negotiation of bills under LC does not require any limit as payment is certain. However foreign bills discounting (FBD) limits are fixed for Purchase/discount of discrepant LC bills or non credit bills. Interest is charged at a concessional rate for the transit period fixed by FEDAI and thereafter at the banks advance rate. Very often payments due are not received by exporters.

A few suggestions could be made to make Postshipment credit problem free for exporters:
• Payment mechanisms have to be streamlined with the help of advanced technology to cut down the periods of payment. Indian bank branches in India can also think of making network arrangements with foreign banks/branches abroad in future. The few cases of payment advises being received by cheque down on local branches of foreign banks causing delay should be eliminated altogether.

• The transit period for which lower interest is applied can be extended.

• Exporters should be given the choice of offering documents on collection basis or on purchase basis. In case of a bill already sent on collection basis if before the payment is received the exporter wishes to get it purchased to take the advantage of the prevailing trend in exchange rates these should be permitted as a matter of course.

• In many cases buyers abroad are reluctant to open LCs to avoid high bank charges. The exporter in India can in special cases be permitted to bear the LC opening charges on behalf of the buyer. Provided the exporter can absorb it in the cost. The banker would have to make a trade off between safety of LC and decline in profitability.

• The track record of the exporter is the most important in deciding whether to negotiate a discrepant LC bill. The banker would have to carefully assess the risk involved. If the relation of the buyer with the exporter is really need-based even discrepant bills would be paid.
There is an urgent need for export promotion in order to improve the balance of payment position of the country. The policy should be outward orientated moving away from the dogmatic perception to import substitution to aggressive export promotion. Hence there is a need to make a sound system for effective credit dispensation by the banking system. The bankers are also in favour of continuation of the present system of credit dispensation by way of second method of lending as per chore committee recommendations. Some of the suggestions for improving the performance of the Commercial banks are

- Bank's internal systems require to be further streamlined so that any export credit system request is disposed of within a maximum time limit

- Special schemes may be devised for 100 percent EOUs and the units located in FTZs.

- RBI's licensing systems may be dispensed with as regards opening of overseas as well as special export promotion branches.

- Refinancing by RBI should be made more liberal both quantitatively and also in terms of spread available to the banks.

- There is an imperative need to develop expertise within the banks both in terms of knowledge and skill and also attitude. Training intervention is required for the above purpose. Further the quick mobility of the officers in
causing problem in this regard as the expertise takes time to be developed in view of the complexities involved in such trade financing.

- The functioning of ECGC needs much improvement both in terms of setting buyer wise limits as well as settlement of claims.

(Forfaiting)

Though Exim Bank has been permitted on a limited scale, to start this activity its role is restricted to act as an intermediary between an exporter desirous of availing the facility and a forfaitor abroad. What is needed is to experiment with the concept of launching forfaiting in the country itself meaning thereby that the banks should be permitted to discount the long term bills without recourse (forfaiting) relating to project exports. while appreciating that this is a high risk financing and no secondary market exists for availed bills of exchange in India. It is suggested that legally it should be made an eligible finance activity with the marketing opening up. There is a possibility that some leading forfaiters in the world may come to India to start the venture.

INTERNATIONAL FACTORING

The Kalyana Sundaram Committee set-up in 1988 to look into the feasibility of starting factoring services in the country had recommended for
launching international factoring along with domestic counterpart. It is high
time that RBI should permit launching of international factoring which would
go a long way in promoting open a/c sales of Indian exporters and may
eventually result in growth of exports.

BANKERS ACCEPTANCE FACILITY

One of the important functions of the banks includes creation of credit.
In developed countries the trade or market financing concept of the exporters
has arisen from the above idea. Under such an arrangement an exporter
desirous to obtain finance from the market draws an usance bill on a banker
which after assessing the credit risk of the farmer accepts it. This accepted bill
is then got discounted by the exporter in the market to get the requisite finance.
These bills are also treated as money market instruments and have become
highly popular because of their low risk, and self liquidating nature. However
this facility can become popular only if the commercial banks have ability to
internalise the risk of exporters. It is suggested that this innovative concept of
Banker's Acceptance may be introduced in India.

CONCLUSION

Commercial banks have crucial role to play in export promotion. They
may therefore take effective steps both in the matter of improving the quality of
providing adequate credit for export promotion. The commercial banks should
be aggressive in nationalising their policies and procedures and building up effective organisational arrangements. The commercial Banks within the frame work of the RBI assess the export sector on priority basis. It can also be reiterated that without exports country cannot survive. And without availability of adequate export credit at reasonable cost exports cannot grow. Concerted measures are hence needed to improve India's Balance of Payments position. Certainly Indian exporters have good potential, intelligence, and capability to tap the International market. In conclusion it is expected that the human factors is going to make the vital difference in India. Three sets of people viz. the bureaucrats, exporters and bankers will have to rise to the occasion and play their roles effectively.