The regression coefficient in the above equation is 1.09 which implies that a change of 1% increase in posec results in 1.09% change in export value.

t test is applied to test whether the regression coefficient is significant or not. the t value is 10.95 which is significant at 1% level and shows that there is a log linear relationship between posec and export value.

Hence hypothesis is rejected.

**DURBIN WATSON TEST**

*Postshipment credit:*

DW value (2.28) which is higher than 1.6 (cut off value) and r2 which is higher than 0.85 (cut off value) suggest that the model is good adding additional factors may give more explanation about export value.

**SUMMARY**

In this chapter besides discussing the factors influencing the export performance of the selected industries the impact of bank credit (pre and post shipment) on export performance has been studied applying log linear regression analysis, analysis of variance and Durbin Watson test. The important finding is that both preshipment and postshipment credit influence the export performance of the sample industries to a very large extent.
CHAPTER VI

FACTORS INFLUENCING EXPORT PERFORMANCE

INTRODUCTION

In this chapter the factors influencing the export performance have been identified. These factors are exogenous factors outside the purview of analysis made in chapter five.

LIBERALISED ECONOMIC SCENARIO

The Government of India has recently taken a number of steps towards liberalisation in the areas of export policy, infrastructure, and export know how and markets. It also carried out a 23 percent devaluation of the rupee vis-à-vis the dollar in July 1992.

The ministry of commerce has set-up high level standing committees for the promotion of exports.

If exports are to acquire dynamism the Government will have to give priority to improving the infrastructural facilities of all kinds available to Indian exporters.
Indian Institute of Foreign trade is actively involved in foreign trade. The commercial attaches in Indian missions abroad are of much help in providing market intelligence.

UNIFIED EXCHANGE RATE MECHANISM

In yet another landmark budget (1993-94) presented by the Hon'ble finance minister, unified exchange rate mechanism was introduced. It enables all exporters and other foreign exchange earners abroad to convert 100 percent of their earnings at the market rate.

Simultaneously all imports are to be paid for at the market rate which in effect ushers in what is popularly known as full convertibility of rupee on current account. This system replaces dual exchange rate mechanism introduced in the budget 1992-93 under which foreign exchange earners could convert 60 percent of their earnings at the market rate and the rest at the official rate.

In the liberalised scenario exchange rate alone can provide enough incentive to exporters. In that situation the importance of appropriate exchange rate is of paramount importance. The exchange rate has to be right to make the exports competitive in order to ensure a sustained growth of exports and equilibrium on the balance of payments.
RUPEE CONVERTIBILITY

India has moved into the regime of full convertibility on trade accounts with the devaluation of rupee in 1991 followed by a partial convertibility in March 1992. These measures served well in at least preparing the nation for the changes ahead. It holds out lots of hopes for the economic health of India. In the liberalised economy the exports have a fair chance to grow, given a proper response by the foreign exchange market which anyway can be managed since the Central Bank holds the option of intervention. Hence the success of new system hangs crucially on one important factor i.e. export growth.

Unification of exchange rates on balance will improve our exports, balance of payments and generate confidence.

Convertibility measures that accompany the easing of controls on foreign investments and capital inflows are expected to boost technology transfers and enhance productivity growth of the domestic economy. These measures act together to eliminate the economic distortions of an otherwise inward looking trade regime and often come as part of the Fund Bank structural reforms.
EXIM BANK

The main focus of the export import Bank is export finance related to export of capital goods and other manufactured goods, consultancy and technology services involving deferred payment term. The bank also provides Pre-shipment finance where the production process exceeds 6 months. In addition to extending non fund based assistance by way of guarantee on behalf of Indian exporters for construction, turnkey and consultancy projects abroad, the Exim Bank provides financial assistance for the export of Indian goods under its various schemes of assistance.

Direct assistance to exporters

- **Preshipment term finance**: It is provided to Indian exporters of eligible goods and services to enable them to offer deferred credit to overseas buyers.

- **Preshipment credit**: It is offered to firms executing export orders where the production process exceeds 6 months. The facility also covers the requirement of rupee funds for incurring domestic mobilisation expenses related to execution of construction / turnkey projects abroad.

- **Term loans for export oriented units**: It is the scheme which finances EOUs and units established in FTZ. The scheme also covers exporters of
computer software to meet the requirements of small and medium scale entrepreneurs to upgrade their production capability for Agency credit line in collaboration with the International Finance Corporation.

- **Overseas Investment Finance:** It is designed to cover the requirement of Indian firms establishing joint ventures abroad to enable them to finance their contribution to the equity of the joint venture.

- **Finance for export marketing:** It is offered out of a World Bank credit and is designed to assist exporters in undertaking export market development programs. Under this scheme the Exim bank meets on a grant basis 50 percent of the expenditure incurred on eligible export marketing activities.

**Loans to foreign government importers and financial institutions**

- **Overseas buyers' credit:** It is extended directly to buyers abroad for the importation of eligible goods and services on deferred payment.

- **Lines of Credit:** They are extended to foreign governments or governmental agencies and foreign financial institutions for on lending to importers of goods and services from India in the countries concerned.

- **Relending facility to Banks abroad:** It provides term finance in their clients for the import of goods and services from India.
Refinance facility for banks in India

- **Rediscount of export bills**: Export bills discounted by commercial banks in India where the usance period is less than 90 days are undertaken by the Exim bank.

- **Small scale industry export bills**: Rediscounting extends to SSI units export bill also.

- **Refinance of Export Credit**: It provides 100 percent refinance to commercial banks in India against deferred payment loans extended by them to cover exports of eligible Indian goods.

- **Bulk import finance**: This scheme was introduced and designed to enable commercial banks to finance import of raw materials for exporting finished goods manufactured out of the raw materials imported.

Foreign Currency loans

Exim Bank may provide foreign currency loans to commercial banks who are not able to raise foreign currency funds on their own to extend preshipment credit in foreign currency (PCFC).

**RBI AND EXPORTS**

Policies governing the provision of credit to the export sector, cost of export credit, interest subsidy payable to banks and availability and cost of refinance are determined by the RBI. Nationalised banks, private and foreign banks are required to operate within the guidelines laid down by RBI.
Export lending in fact encouraged through the variety of mechanisms like concessional interest rates, interest subsidies to banks, rediscounting facilities and informal exhortation by RBI. The RBI stipulates the rate of interest applicable to domestic industry. Not only that the RBI notifications stipulate the period for which concessional credit would be available both at preshipment and post shipment stages. Periodically the RBI reviews the rates on export credit and modifies them in the light of country's export performance.

The RBI has provided additional resources to commercial banks for export credit by enhancing the refinance facility through a modified two tier formula. Operational flexibility was given to banks so as to be able to support the recovery in the real sector by relaxing norms for maximum permissible bank finance and consortium lending etc. Relaxation of selective credit control measures was also resorted to. The policy was to simultaneously expand the lendable resources of banks and entitlements of borrowers to borrow from banks. Significant moves were also made towards interest rate liberalisation and rationalisation to expand exports. With the deterioration in the BOP and the pressing need to promote exports RBI envisages the provision of credit to the 'extreme focus' thrust sector.

**SUMMARY**

In this chapter the factors influencing exports have been discussed. These factors operate at the macro level. Their impact on export performance has been discussed theoretically.
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, the 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 paper work 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 loosing 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.