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EXPORT FINANCE: A TOOL FOR PROMOTING EXPORT IN INDIA

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ABSTRACT

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Export Finance play a crucial role in growth and development of export sector in any economy, which face a tough competition from rest of world. It is an essential and prime element for successful operation of various internal and external activities to grow the export business sector.

In view of many scholars and economists, export is considered as the engine of growth and development of any country. Presently, India's total export is contributing approx. 2% in the world's trade. In export trading the 6 Ps concepts of export marketing are depending on the availability of export finance assistance in terms of share, cost and period of time.

This study attempts to analyze and review the impact of export finance used by various exporters on their export profitability, performance on varied interest rate, cost of finance and special schemes related to pre and post shipment stage in export trading. To analyze the role and importance of various financial institutions in providing the financial assistance to the exporters in India helps and supports to export sector to grow in the right direction and also to achieve the specific goals.

This research paper provides meaningful information to policy maker who want to reform their export structure, promotion schemes and increase the nation's competitiveness in present era.

KEYWORDS: ***Export Finance, Financial Institutions, Export Credits, Export Insurance***

INTRODUCTION

Export Finance play a crucial role in growth and development of export sector in any economy, which face a tough competition from rest of world. It is an essential and prime element for successful operation of various internal and external activities to grow the export business sector. In view of many scholars and economists, export is considered as the engine of growth and development of any country.

Commerce and Trade have recognized wider significance for development and growth of industrial or agricultural structure in any economy. It helps to create and push different level changes in an economic, political and social environmental views and their inter-related relationships. Trade as a basic foundation of modern economic activities, especially to create employment, induces new sectors, new industries, new innovation, new management concepts and new investment to economic progress in country.

Various changes in the national and international economic areas and other fields affect the entire directions, trends and composition of foreign trade performance of a country. Various famous economists and multilateral institutions are agreed that promoting export and achieving export expansion are very important to the whole world.

There are some important aspects of external trade like as:

- Earning foreign exchange for eco-industrial development and huge growth.
- For favorable balance of payment.
- To create employment and increase high labor productivity.
- Gateway of technical knowledge and entrepreneurship.
- To generate a greater capacity utilization of resources.

The most developing or under-developing countries are believing that without high-speed industrialization they cannot resolve their various problems like as poverty, unemployment, living standard and infrastructural development. Industrial progress directly or indirectly depends upon the export sector of any nation.

In Indian economy, various economic reforms opened up in the 1990s, which included investment and trade, deregulation, tax-reform, and privatization to improve the foreign trade share in global trade. The growth and composition of exports and imports reflect many aspects of the nature and performance of a nation's economy. It depends upon the increase new investment, open new markets, supported government policies and proper financial assistance by financial institutions.

Credit and finance are known as the life and blood for the growth of export sector. It is more significance in the export transactions in various countries to enlarge and maintain their share of world markets. Basically, liberal payment mode is depending upon the available finance to the exporters to its quantum, cost and the period at pre- and post-shipment level.

CONCEPT OF EXPORT FINANCE

Export refers to outflow of goods and services and inflow of foreign exchange reserve. Exports play a significant role in the economy of any nation. It helps to maintain healthy balance of trade, foreign exchange reserve and high rate of growth of export sector. The exporter may require export finance depending upon the nature and types of goods to be exported to overseas buyer.

The short-term finance is related to working capital. It is widely used to meet all regular and recurring needs of an export business firm. It is referring to purchase various type of raw material, payment of wages and salaries to labour force, various expenses like payment of rent, electricity, advertising, sales promotion, etc.

The medium- and long-term financial needs such as purchase of fixed assets and long-term working capital. Export finance and credit are available not only to help export production but also to sell to overseas customers on credit.

The concept of 6 Ps is related to Product, Place, Price, Publicity, Packaging, Presentation, Procedures and Documentation for exports. Each P depends on the availability of finance to exports in terms of share, cost, and period of time at pre- and post-shipment stage.

NEED FOR EXPORT FINANCE

According to Davin Chor and Kalina Manova, export finance may be needed, to research the profitability of new export markets; to make market-specific investments in capacity, product customization and regulatory compliance; and to set up and maintain foreign distribution.

In other words, the Export Finance is required mainly for the following purpose:

- Export finance assist exporters in processing or production or procuring of raw material components and accessories for production of goods for export.
- Export finance facilitates in paying for packing and forwarding, transport and insurance, marketing and labeling as well as incurring other marketing expenses such as advertisement and publicity.
- Export finance is also primarily intended to provide liquidity to exporters to enable them to offer matching credit terms to overseas buyers thus help in extending deferred payment and other credit facilities to overseas buyers.

FINANCIAL INSTITUTIONS

The existing institutions are granting export finance to the exporters. They are:

- Export Import Bank of India
- Commercial Banks, both nationalized and non-nationalized
- Development Banks such as IDBI, ICICI, etc.
- Small Industries Development Bank of India
- State Finance Corporations
- National Small Industries Corporation
- Export Credit Guarantee Corporation.

These agencies are providing all type of finance for exporters direct and indirect methods. They are also providing guarantee for the loans given by foreign banks and institutions. They are playing a larger role in the economy in such areas as investment, production, retailing, and regulation of the private sector. Governments have many different policies, programs and activities to help develop competitive products and increase e export sales.

Various banks and other financial institutions provide export finance for two key objectives. First, finance serves as a source of real working capital for traders and foreign entities in need of liquid assets and other means. Second, finance provides credit insurance against the political risk or price or currency fluctuations. There are five types of export finance:

- Pre-shipment export finance.
- Post shipment export finance.
- Export finance against collection of bills.
- Deferred export finance.
- Export finance against allowances and subsidies.

All types of commercial banks including foreign banks, regional rural banks, certain cooperative banks, etc. all are providing finance such as pre- or post-shipment finance, lines of credit, foreign currency loans, advances against bills sent on collection/deemed exports, etc.

OBJECTIVES OF THE STUDY

Our aim for the present study is:

- To analyses the importance of export finance available in India.
- To examine the various financial programmes operated by the institutions.
- To find out difficulties of the exporters and export financing agencies.
- To review the current literature on export finance.
- To suggest areas that are lacking rigorous investigation.

RESEARCH METHODOLOGY

The study is an exploratory research based on secondary data. The secondary information collected from various Annual Reports of Exim Bank of India, Report on Currency and Finance, RBI Bulletin, newspapers, different scholars and researchers published books, articles published in various journals, periodicals, conference paper, working paper and others database and websites.

LITERATURE REVIEW

Review of related literature is an important and primary element of any research. It helps to investigator to understand the previous research interest, patterns of research, degree of the final research output, etc.

- **Mudugal (2020)** studied “Role of Exim Bank for Development of International Business- A Study” that the performance of export rendered by the bank. He also explained that the many developing nations like India concentrates more on increasing the value and volume of the export turnover to attain economic developments to provide employment opportunities.
- **Sanjay Jain (2018)** explained in his study and analyze that the devaluation of rupee by 9% has made the Textile and clothing industry competitive globally and maintenance of a competitive exchange rate is an essential prerequisite in labor intensive manufacturing industries. He also concluded that the currency management by the government has benefited the exports sector.
- **Francis Cherunilam (2016)** explained in his book “International Business”, the major problem of India’s export sector i.e., lack of integrated approach, high cost, poor quality image, unreliable behavior of some exporters, supply constraints structural weakness institutional rigidities and inadequacy of trade information system.
- **Ghose and Thakur (2015)** discussed “An analysis of the growth of EXIM bank as India’s premier export financing institution” that the export finance contributing to growth and development of export sector considering the role, functions, and objectives of the EXIM Bank of India.
- **Kesavan (2015)** studied on “Financial facilities provided to exporters by EXIM bank with Specific reference to India” that the impact of financial evident in a period of decade. It has showed an extraordinary positive performance in helping export and export-oriented projects in India and abroad.
- **Besedes, Kim and Lugovskyy (2014)** conducted a study, using product level data on exports by a large array of countries to the United States and 12 members of the European Union between 1989 and 2007. They explained that credit constraints are not an initial barrier for a firm when export relationship has been initiated by both sides. They also express that credit constraints can affect not only the volume of trade, but also the duration of exports.
- **Chaney (2016)** explained in research paper how the presence of credit constraints can decrease the sensitivity of trade flows to exchange rate fluctuations in export procedure. He also explains exchange rate behavior in term of external trade and credit assistance.
- **Becker, Chen, and Greenberg (2013)** focused on the role of upfront investment and studied annual bilateral trade flow among a sample of more than 170 countries. Their result shows that the well financial development is associated with more

export. They also stated the importance and significance of financial institutional support to the export sector.

- **IIFT (2013)** conducted a study on "Export and Management Capabilities of Indian Garment Industry" and found that the management capabilities increase the textile and garment industry export performance in the country and show its major share in India's Export Trade.
- **Chor and Manova (2012)** analyzed the dependence of exports on external finance can be greater than in the case of domestic production. They give three reasons: (i) Exports are related with sunk and fixed specific costs like as to find export opportunities, making or establishing distribution networks abroad; (ii) Export transactions take a longer time and (iii) Many transactions require insurance due to various additional risks like as country and political risks.
- **M. Saraswathi (2012)** stated in his book "Credit Worthiness of Buyers" that the government auditor insisting Export Credit Guarantee Corporation of India Ltd. (ECGC) mandate banks to check the creditworthiness of foreign buyers of Indian goods. But again, he tells that ECGC is not capable to do. It also sells credit insurance product.
- **Stiebale (2011)** stated that financial constraints are related to know the exporting behavior of firms. He gives two reasons for that: (i) Current economic models focused on the role and importance of financial markets in world trade, to get a comparative advantage and create a foreign demand for produced goods. (ii) Exporting especially involves sunk costs. It is significant for young firms because they have access to external finance, and can export under imperfect financial markets.
- **Raquel M. K. (2011)** explained in his article "The Role and Importance of Export Credit Agencies", the three important function of Export credit agencies. First, they help exporters to meet officially supported foreign credit competition. Secondly, they provide financing to foreign buyers when private lenders cannot finance. Third, they assume risks beyond those that can be assumed by private lenders. ECAs enhance the ability of their country's lenders to compete internationally.
- **Berman and Harcourt (2010)** analyzed using a sample of 5000 firms in emerging nations and explained the role of financial factors on the export decisions and not finance the number of exports. While financial constraints were important for export decisions, a better financial health did not affect either the probability of remaining an exporter the amount exported. In addition, productivity was important for export decisions only if firms had enough access to external finance.
- **Another study by Manova (2008)** concluded that credit constraints were an important factor in explaining the international trade flows of 91 countries over the 1980-1997 period. He also showed that the financial liberalizations led to higher exports more than proportionately in financially fragile sectors needing more external finance or utilizing less collateralizable assets, as well as in countries with a less developed financial system.
- **Svaleryd and Vlachos (2005)** stated in their study that "…We find that well-developed financial intermediaries and market have a positive effect on the content of external financing in net trade". This statement showed the importance of financial institution in export trade.
- **Financial Daily (2001)** stated that the Export Credit Guarantee Corporation (ECGC), is keen on enlarging its share in export risk underwriting business and is planning to introduce a `differential' premium policy cover for exporters.
- **Sundaram K. Anant (2000)** discussed in his book "The International Business Environment" that the component of a national strategy is the policies designed to achieve its goals. He explained that it is more important to think of a policy mix related to export funds to compete in foreign market.
- **Satish Pava (2000)** stated "Export financing agencies and their role in financing of agricultural products" that the export financing agencies like as ECGC. Exim Bank, Commercial Banks, Private Banks and Co-operative Banks provide financing assistance to Agri product exporters. He found that the rate of interest offered and documentation procedure are different. The Cooperative and Private Banks provide loan at the higher rate of interest than the Commercial banks, Exim bank and ECGC etc. But the exporters prefer to obtain Loans from them due to their loan disbursement is very simple, easy, and fast procedure.

CONCLUSION

Pre- and post-shipment stage is most important factor for promotion of export trade, the availability of both at. It has not involved to procure the raw materials, processing, boarding on ship or air but also has to often allow credit terms to a foreign buyer. In international trade, transaction is generally related to long time settlement. The exporter has to be extra cautious to ensure about this process. In export finance various issues are found like as:

- Availability of adequate finance on time.
- Proper provisions related to concessional credits.

- Institutional support to protect the losses.
- Deferred credit terms for project and turnkey assignments, etc.

To resolve these problems and issues, the Indian financial system is actively engaged in financing to export sector and exporters requirements. Genuine and need based short- and long-term requirement, export refinance facilities, export credit and insurance facilities are offering from commercial banks, Exim bank, ECGC and others to care of exporters.

Despite the existence of such integrated broad network system, the problems and issues are continuing running in this sector. Issues and complaints regarding rigidity of bank's credit system, delay in decision making process, none publicity and lack of proper information about financial assistance related to export sector.

There are some suggestions for the improvement:

- Relaxation in norms for financing by financial institutions,
- Improve proper information system about the funded programs,
- Use more digital system.
- Proper coordination among exporter, importer, and financial agencies.
- Spread proper education and knowledge about export finance.

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RESEARCH GAP AND FUTURE RESEARCH OPPORTUNITIES

Luminaries like as Syaleryd and Vlachos (2005), Becker, Chen, and Greenberg (2013), Chor and Manova (2012), Stiebale (2011), Chaney (2016), Berman and Harcourt (2010), Besedes, Kim and Lugovskyy (2014), Raquel Mazal Krauss (2011), Satish Pawa (2000), Sundaram K. Anant (2000), IIFT (2013), M. Saraswathi (2012), Sanjay Jain (2018) have done commendable work on Indian export sector and export finance.

Various institutions like EXIM BANK, ECGC, ITP, IIFT, etc. have also conducted research on the related field. However, the focus on institutional support did not adequate and proper attention so far. A well designed and functioning export finance system can be playing an important role in the field of export sector and help to implementation of both the export strategy and government's objectives.

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