

A STUDY ON THE AVAILMENT OF EXPORT FINANCE BY EXPORTERS IN SURAT CITY

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Abstract:

Export is important for any economy to grow. In order to boost export, finance is made available by various institutions and banks. Export finance can be availed in the form of pre-shipment and post-shipment credit, also it can be availed in home currency or foreign currency. On the other hand, some difficulties are also faced by exporters who want to avail such export finance. This paper studies the availment of export finance in Surat city. It is found that in Surat city, exporters prefer to avail pre-shipment finance from private banks. Also it can be seen that the exporters face difficulties such as requirement of excessive documents while availing the export finance, they find the procedure to be lengthy and even after that it takes a long time for them to actually receive the finance.

Keywords: Export Finance, Pre-shipment, Post-shipment, Finance

I. INTRODUCTION

A. Meaning of Export Finance

Export Finance refers to financing of the goods from the domestic (home) port to the foreign port as well as the inland centres. Financing of exports is a specialised business demanding the operations of institutions that are engaged in it and have special skills in handling such foreign transactions. Hence, it can be said that good financing arrangements are a prerequisite for the success of export trading.

B. Need for Export Finance

Depending upon the nature of goods to be exported, an exporter may require short term, medium term or long term finance. Finance may be needed in two phases i.e pre and post shipment phase.

In the pre-shipment phase, finance is required to meet the expenses related to the manufacturing of the goods or services which are to be exported. It is usually availed against a confirmed export order.

In order to be competitive in markets, exporters are often expected to offer attractive credit terms to their overseas buyers. Extending such credits to foreign buyers put considerable strain on the liquidity of the exporting firms. Therefore, it is extremely important to make adequate trade finances available to the exporters from external sources at competitive terms during the post-shipment stage.

II. THEORETICAL FRAMEWORK

A. Export Credit in Indian Rupees and Foreign Currency

Export credit in Indian rupees: The Reserve Bank of India (RBI) prescribes a ceiling rate for the rupee export credit linked to Benchmark Prime Lending Rates (BPLRs) of individual banks available to their domestic borrowers. However, the banks have the freedom to decide the actual rates to be charged with specified ceilings.

Export credit in foreign currency: In order to make credit available to the exporters at internationally competitive rates, banks (authorized dealers) also extend credit in foreign currency' at LIBOR (London Interbank Offered Rates), EURO LIBOR (London Interbank Offered Rates dominated in Euro), or EURIBOR (Euro Interbank Offered Rates).

B. Pre-Shipment and Post-Shipment Credit

Pre-shipment credit: Pre-shipment credit means any loan or advance granted by a bank to an exporter for financing the purchase, processing, manufacturing, or packing of goods prior to shipment. It is also known as packing credit. As the ultimate payment is made by the importer, his/her creditworthiness is important to the bank.

Banks often insist upon the L/C or a confirmed order before granting export credit. The banks reduce the risk of non-payment by the importer by collateral or supporting guarantee.

Post-shipment credit: Post-shipment credit means any loan or advance granted or any other credit provided by a bank to an exporter of goods from the date of extending credit after shipment of goods to the date of realization of export proceeds. It includes any loan or advance granted to an exporter, in consideration of any duty drawback allowed by the government from time to

time.

C. Institutions Involved in Export Finance

1. Export Import bank
2. Commercial banks, both nationalized and non-nationalized
3. Development banks such as IDBI, ICICI, etc.
4. Small Industries Development Bank of India
5. State Finance Corporations
6. National Small Industries Corporation
7. Export Credit Guarantee Corporation.

All the above institutions are providing finance for exporters directly as well as indirectly. They are also guaranteeing for the loans given by foreign banks. The foreign banks are giving offshore lending which our Indian banks are yet to take up. In offshore lending, loans are given in foreign exchange enabling the foreign buyers to purchase goods from the domestic producer. There is also export finance given to deemed exports which consists of finance made available to those who are supplying raw materials or semi-finished goods to foreign companies operating in India, especially in export processing zones or in free trade zones.

D. Trade Services

1. Export bill collection means sending of export bills to overseas buyer through his bank to collect payment under export bills.
2. Export Bill Purchase: It means that the bank purchases the bill for which it provides finance in return.
3. Export Letter of Credit: An advising bank is located in beneficiary's country known as a notifying bank. It advises a beneficiary (exporter) that a letter of credit (L/C) opened by an issuing bank for an applicant (importer) is available. An advising bank's responsibility is to authenticate the letter of credit issued by the issuer to avoid fraud.
4. Export Letter of Credit Confirmation: Confirmation is an undertaking from a bank other than the issuing bank to pay the beneficiary for a complying presentation, allowing the beneficiary to further reduce payment risk,

although confirmation is usually at an extra cost.

5. **Transfer of Letter of Credit:** A transferable letter of credit is generally used when the beneficiary of a letter of credit is not the actual supplier of the goods, but a mediator. A transferable letter of credit is a regular letter of credit with an added provision that permits a designated bank to transfer the sum specified by the letter of credit to one or more of the official suppliers. This transfer is completed at the request of the original beneficiary of the letter of credit.

E. Various Factors to be Considered

From other similar studies, it was found that following are the factors to be considered while availing export finance from a bank or institute:

Length of the procedure

Complexity of the procedure

Fees for the service

Requirements of documents

Time taken to avail finance

III. LITERATURE REVIEW

(Kumar, 2013) in his paper explained that banks play a major role in providing finance and other kind of services to exporters. The study was carried out to find out which sector of banks (Public, Private or Foreign) can provide exporters with best facilities and also find out what kind of problems are faced by the exporters of Ludhiana. It was found that respondents prefer public sector banks as they consider them to be more trustworthy.

(Balraj Saini, 2014) aimed to find out how many handicraft exporting firms were using export finance. It was found that majority of the firms availing the export finance used pre-shipment in Indian rupees. Their export sales increase just after the year export finance is availed. Firms availing export finance were satisfied with their institution providing Finance and the most important factor was the behaviour of the staff.

(Aworemi J R, 2011) found that export profit would be negative if no form of export finance is used for export operations. (Rajan R G, 1998) say that industries using more external finance enjoy higher profit margins and growth prospects. (Rhee, 1989) argues that it is imperative that exporters have access to trade finance on time especially in Developing Economies so that export opportunities are not lost and trade potential is fully exploited. (Finger, 1999) argue that international trade requires important services from financial institutions, and if these are not available, the transaction costs of trade are likely to grow strongly. They consider finance as a “lubricant” for international trade.

IV. RESEARCH METHODOLOGY

A. Research Statement

A study on the availment of export finance by exporters in Surat city.

B. Research Objectives

- To study the availment of pre-shipment and post shipment finance by exporters in Surat
- To study the ease of procurement of pre-shipment and post-shipment finance
- To find the various trade services provided by banks to exporters

C. Source of Data

Primary data has been collected. In this study a questionnaire is used for the primary data collection. Secondary data was collected from books, journals, and websites for a better understanding of the research topic.

D. Sampling Procedure

Target Population: The target population consists of all the exporters in Surat who avail export finance.

Sample Size: The sample size is 89 respondents. The respondents vary from a wide cross section of various industries.

Sampling Method: Convenience sampling was used to select sample respondents from the target population.

E. Data Collection

A structured questionnaire based on various parameters of interest was used to elicit information from respondents. The questionnaire has been prepared based on the objectives of the research.

F. Data Analysis

The responses were coded and analysed using Microsoft Excel. Charts are used to represent the data. Likert scale questions have also been used and tabulated.

G. Limitations of the study

- Some exporters were unable to be surveyed as it was not possible to establish contact with them.
- Level of accuracy of the results of the research is restricted to the accuracy level with which the respondents have given answers.

V. DATA ANALYSIS

A. Type of Export Finance

From the table 1 it can be seen that, 60% of the respondents avail post-shipment finance, 35% of them avail pre-shipment finance and 5% of the respondents avail both pre-shipment and post-shipment finance.

B. Bank or Institute from which Export Finance is availed

From the table 2 it can be seen that, 70% of the respondents avail export finance from a private bank or institute while the remaining 30% avail it from public bank or institute.

C. Currency of Export Finance

From the table 3 it can be seen that, 60% of the respondents avail the export finance in home currency that is in Indian rupees, while the remaining 40% avail it in foreign currency such as Australian Dollars, U.S Dollars, Euros.

D. Trade Services Provided by Bank (Multiple Choices Permitted)

<Graph 1>

From the graph 1 it can be seen that, the most commonly provided trade services are export bill collection, transfer of letter of credit and export bill purchase.

E. Difficulties Faced by Exporter in Availing Export Finance (Only One)

From the table 4 it can be seen that, respondents feel that the major difficulties in availing export finance are that the procedure is lengthy, it takes a long time to avail finance and many documents are required to avail export finance.

VI. CONCLUSION

Most of the exporters avail post-shipment finance and very few avail both post and pre-shipment finance. Export finance is availed mostly from private banks/institutes and few from public banks/institutes and it is availed in home currency i.e. in Indian Rupees.

The major difficulties in availing export finance faced by the respondents are that the procedure to avail finance is lengthy and it takes long time to avail finance.

The exporters agree that the fees charged by the bank/institutes are fair to the services they provide. Exporters find it easy to avail finance and showed likelihood to avail in future. The services provided by the bank/institute are appropriate and prompt. Exporters consider brand of the bank/institute as an important factor while choosing bank/institute. Information to be kept confidential is also another important factor that exporters consider as important.

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Appendix

List of Tables

Table 1: Type of Export Finance

Type of Export Finance	Frequency
Pre-shipment	54
Post-shipment	31
Both	4

Table 2: **Bank or Institute from which Export Finance is availed**

Type of Institute	Frequency
Public	27
Private	62
Foreign	0
Other	0

Table 3: **Currency of Export Finance**

Type of Institute	Frequency
Home currency	54
Foreign currency	35

Table 4: **Difficulties Faced by Exporter in Availing Export Finance**

Difficulties in availing export Finance	Frequency
Lengthy procedure	31
Complex procedure	0
High fees	0
Document requirement	30
Long time	28

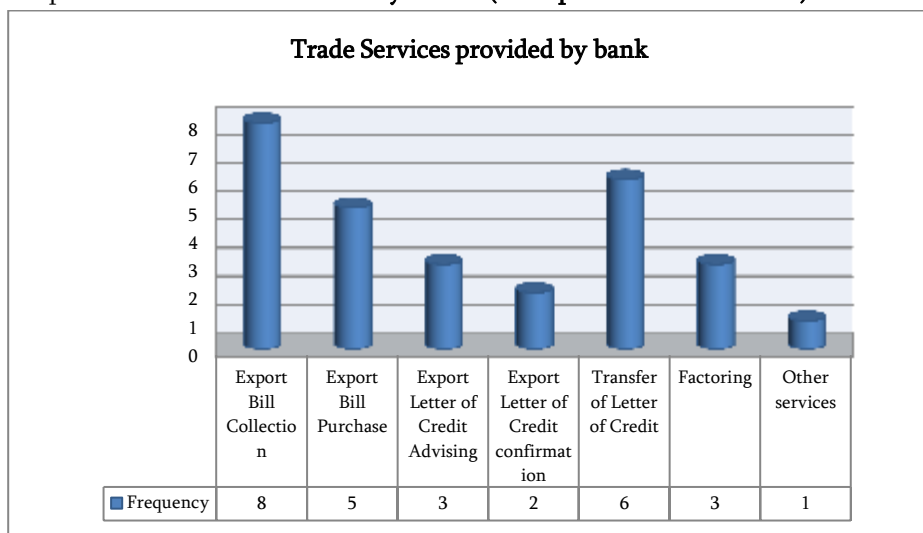
Table 5: **Likert Scale Statements**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The fees charged for the services are fair	4	6	26	22	31
The interest rates charged on export finance is fair	1	1	41	32	14
The procedure to avail export finance is difficult	18	22	18	16	15
Brand of the bank is an important factor to consider while availing finance	5	17	36	15	16
My bank provides a variety of trade services	1	12	33	17	26
The customer service is excellent	2	14	35	31	7
The provided trade services are helpful	2	13	30	28	16
Availing export finance is a very easy task	15	14	29	26	5
Customer information is kept confidential	9	13	34	18	15
Procedure to avail export finance is too long	4	11	24	31	19
There are no hidden charges for the	2	14	30	31	12

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
services					
Too many documents are required to avail export finance	1	14	28	30	16
My bank/ institute provides prompt services	9	20	29	20	11
Overall it is easy to avail export finance	8	13	34	19	15
I would like to avail export finance in future	1	5	24	41	18

List of Graphs:

Graph 1 Trade Services Provided by Bank (Multiple Choices Permitted)



Authors Profile

Divya R. Patel is a Gold Medalist in M.B.A (Finance). She has successfully qualified the UGC- National Eligibility Test in Management. She is currently working as an Assistant Professor at School of Commerce and Business Management, Vanita Vishram Women's University. She has also received recognition as PG teacher. With a keen interest in research, she has published various research papers and book chapters, and attended quite a number of trainings on data analysis software such as SPSS, R, etc.

