



EXPORT FINANCING IN INDIA : A CONCEPTUAL FRAMEWORK

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ABSTRACT

Exports are instrumental in the development of an economy; one of the major contributory factors for promotion of export trade is the availability of Export Finance both at pre and post-shipment stages. An exporter has not only to procure the raw materials either indigenous or imported for processing the same in finished goods and boarding them of ship and air, in international trade transactions is normally longer compared to the domestic counterpart and correspondingly. The lead time for getting payment from the overseas buyer is more. The issues involved in export finance primarily involve availability of adequate and timely finance, provision of concessional credit on order to make the export internationally competitive, institutional support to protect the losses on account of default risks of the overseas buyers and availability of special deferred credit for promotion of paper exports including turnkey assignments. This paper attempts to highlight the significance of export financing for Indian exporters, promotional activities and national level boards striving hard for the upliftment export activities through out of the country.

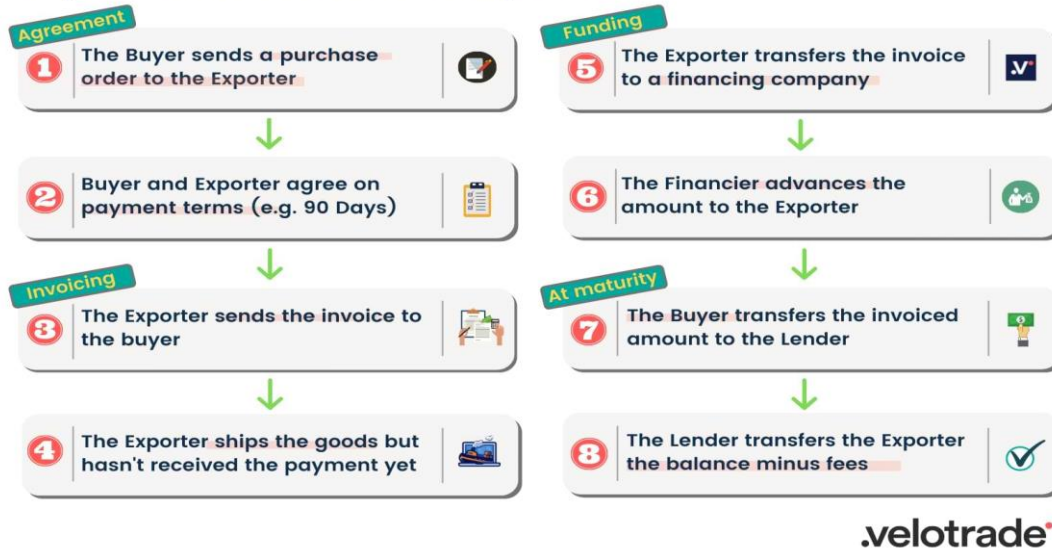
KEY WORD: Export finance, Export promotion organisation, Financial institutions.

INTRODUCTION

Export financing helps to produce goods and services which are cheaper cost than other countries. It results in less cost of production which they have less comparative cost, it will lead to availability of goods at a lower price. Foreign trade also increases the scope of market because of domestic demand and foreign demand for the product. Macroeconomic stability in the domestic sector provide boost to external sector performance.

Similarly achievements in external sector facilitate growth in domestic sector. In totality export financing and foreign trade can have a profound impact on the growth of an economy in terms of production, employment, technology, resource utilization and so on. Hence export financing is very significant to achieve positive net export balance over imports. Export financing is a cash flow solution for exporters. Export Finance facilitates the commerce of goods internationally the seller agrees on the payment terms of the cross border buyer. Thus, there is a cash flow issue the supplier ships the goods overseas while the payment will be received at a later stage, Export finance allows the businesses that sell products to another country to get access to working capital before their clients pay for the products purchased.

Export Finance Process Explained

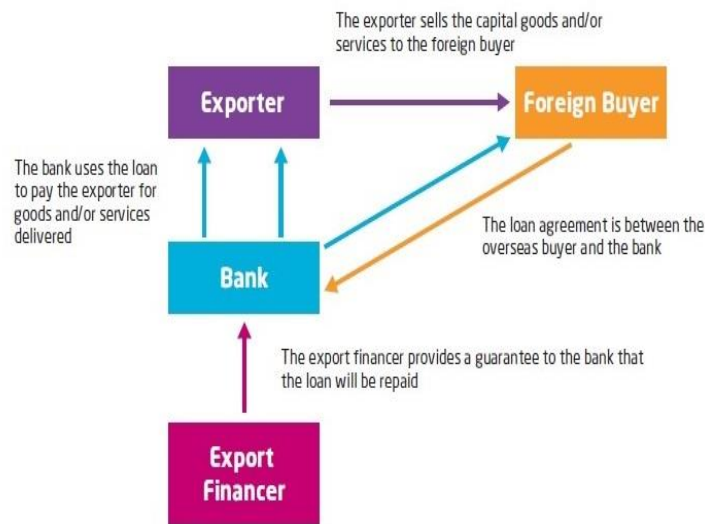


Source: velotrade.com

Export financing is a term funding agreement available to Suppliers (Exporters) trading with overseas Buyers (Importers). Export finance allows Suppliers to access working capital while they wait for Buyers to pay invoices.

Suppliers that trade overseas frequently offer deferred payment terms – sometimes exceeding 120 days – which means that they face a financing gap between shipping the goods and receiving payment for them. Suppliers still need working capital during this period. To solve this, Suppliers may choose to submit unpaid invoices to a finance provider (financier) that will advance a percentage of the invoice value and pay the balance (minus a service fee) once the Buyer settles the invoice.

Export Finance



Source: Trade Finance Analytics

REVIEW OF LITERATURE

Soheli Ghose et al., (2015) in this article the authors are intending to throw the light on the export financing through EXIM Bank of India. The EXIM Bank plays a key role to encourage the country's foreign trade and investment. The article emphasizes the role of EXIM bank and its function in the overall growth of exports. The EXIM bank also initiates various lending programmes which cover all the stages of exports including fund based and non-fund based facilities to the exporters. It receives grants from the government, in return paying huge taxes to the government. To attain the economic sustainability the bank has to focus on increasing the volume of the exports which creates more employment opportunities motivating people to take up the exports business. In India the EXIM bank is gaining better returns in turn trying to enhance the performance of exports business. Moreover it safe guards the interest of the exporters to protect them from several risks involved in exports business.

Varun Kesavan (2015) the study aims at propagating the importance of EXIM bank and the reason of its establishment for enhancing the exports business in India. And also the role of EXIM bank in boosting the country's foreign trade and investments to attain the economic stability. It is a conceptual study which considers various policies of EXIM bank. The EXIM bank of India has developed various modes of financing to the exporters and conveys different credit facilities provided by the bank to the Indian companies, corporate sector, MSMEs, Grassroots Enterprises. The Bank encourages the export business and remunerative return on their produce essentially through facilitating exports from their units and it lays down few eligibility criteria's to get the benefit under these Schemes. Finally it can be concluded that, over a period of time the EXIM bank has well performed and is extremely good and gradually the role of the bank in promoting export business is increasing.

Kumar Adithya (2015) this paper critically evaluates the contributions made by the different financial products of EXIM Bank. The EXIM bank encourages the Indian exporters by providing financial aids for the purpose of conducting export business and it is also an apex institution in India which enhances the competitiveness of

importers and exporters in the global market. This study purely based on secondary data from the annual reports, articles and other authentic documents. The various financial products of EXIM bank has been evaluated like line of credit , buyer's credit ,buyer's credit under (NEIA),overseas investment finance, corporate banking and project exports based on the financial performance for five years. The EXIM Bank's financial products have made significant contributions towards the economic development of India and it is going beyond traditional financing creating the competitiveness among the Indian companies. The study reveals the focus of the bank towards the project exports and other financial products. Most of the exporters are currently dependent on the commercial banks to get the credit facilities for their exports orders.

Shishir Pandey (2016) this paper studies is to examine the various schemes of EXIM Bank and working performance of funded as well as non-funded assistance to the exporters. The data were collected through annual reports of the Bank as to how much the bank is funding the exporters for the purpose of augmenting the growth of the exports of India. The study also attempts identify the weaknesses in the working pattern of credit institutions and also tries to give the suggestions for their improvements. Various support services are also provided for the Indian traders as well as investors in the form of data published in bulletin and by monthly publications in ten regional languages. It also undertakes customised research on behalf of the companies which are interested in spurring markets potentials and developing exports entry plans.

Alam Ahmed and Abdul Aziz (2016) the study evaluates various strategies for providing financial assistance to the exporters of India through EXIM Bank. It also aims to study the efficiency of the Bank in financing Indian exporters. The new arena of financing in the contemporary world which has opened up for the global business has to be boosted to strengthen the roots of exports which is the door for filling the lacuna of external trade between India and rest of the world. EXIM Bank has augmented the opportunities for the traders who want to enter the global business through external trade in the form of exports.

OBJECTIVES OF THE STUDY

- To study Export Financing in India
- To examine Export Financing institutions in India

METHODOLOGY

The present research methodology is in descriptive form, exploratory and analytical in nature. Study focuses on the status of export promotion and financing in India, data and information are collected by using secondary survey method, official websites of the union and state government departments. Theoretical concepts were developed by reviewing journal articles, reports, text books and from various published sources.

How Does Export Financing Work?

A typical export financing agreement works in the following way:

- An Exporter ships goods to an overseas Importer and raises an invoice with deferred payment terms, for example, 90 days.
- The Exporter needs immediate access to working capital, so it assigns the unpaid invoice to an export financing provider, using it as security for a trade financing loan.
- The finance provider agrees to advance most of the invoice value as an immediate payment.
- The Importer pays the invoice amount to the finance provider within the agreed 90-day window.
- The finance provider then pays the remainder of the money to the Exporter, minus any pre-agreed service fees.

Benefits of Export Financing

Export credit provides plenty of benefits for international Exporters.

- Exporters get immediate access to finance that would otherwise be inaccessible for up to 120 days.
- Exporters use the working capital to invest in other areas of the company and its growth.
- Avoid late payment charges for their own bills.
- Advances are based on the individual invoices rather than the Supplier's credit history.
- As soon as invoices are settled, export procedure is done
- Export finance is ideal for SMEs (small- and medium-sized enterprises) that need funds but have limited banking facilities or poor credit history.
- Chasing late payments becomes the financier's responsibility

Export Finance Risks

International Business activities are filled with risks and returns viz. There are potential risks with export financing, Exporters have to look after such risks to avoid surprises and to mitigate abnormal losses they should be aware of the following:

- Service fees - there are service charges with export financing. Usually, this is around 1-3% of the invoice value but may be more. Exporters should ensure fees are affordable.
- Late payments - in recourse factoring, the Exporter is responsible for chasing the Importer for any late payments. Therefore it risks defaulting on its own repayments to the financier if the Buyer does not pay. This risk can be avoided by using non-recourse factoring, where the finance company assumes responsibility for collecting payments from the Buyer.
- Exchange rate risk - trading and borrowing in different currencies present risks for Exporters. It's vital to understand these risks when calculating the payment of finance fees.

Financing Strategies

For Indian Companies executing contracts overseas: It includes Pre-shipment credit, Supplier's Credit, Credit for Project Exporters, Guarantee Facilities, Finance for Deemed Export

For commercial Banks: It includes Rediscounting Facility, Refinance of the supplier's credit

For Overseas Entities: It includes Buyer's Credit, Eligible Goods

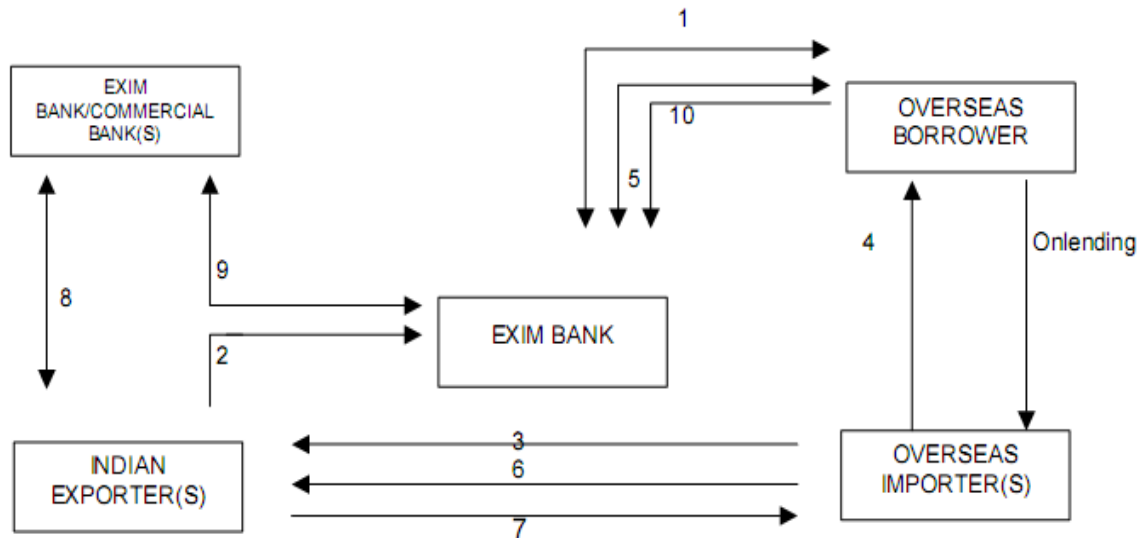
Finance for Export Oriented Units: It includes Term Finance (For Exporting Companies), Project Finance, Equipment Finance, Import of Technology & Related Services, Domestic Acquisitions of businesses/companies/brands, Export Product Development/ Research & Development, General Corporate Finance

Working Capital Finance (For Exporting Companies): it is further classified in two sub groups one is Fund based strategies and another one is non fund based strategies. Fund Based strategies includes Working Capital Term Loans [< 2 years], Long Term Working Capital [upto 5 years], Export Bills Discounting, Export Packing Credit, Cash Flow financing and Non fund based strategies includes Letter of Credit Limits, Guarantee Limits

Overseas Investment Finance: Finance for Indian Company's equity participation in the overseas Joint Venture (JV)/ Wholly Owned Subsidiary (WOS), Direct Finance (Term & Working Capital) to the overseas JV / WOS , Finance (for equity/debt component) for acquisition of overseas businesses / companies including leveraged buy-outs including structured financing options, Direct Equity by EXIM Bank in the overseas JV/ WOS of an Indian Company

Lines of Credit: EXIM Bank extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries, to import goods and services from India on deferred credit terms. The Indian exporters can obtain payment of eligible value from EXIM Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool. EXIM Bank extends LOCs, on its own, as well as, at the behest of Government of India.

LINES OF CREDIT PROCEDURAL FLOWCHART



Source: Exim bank

Export Promotion Organisations in India

The following are the major export promoting, financing, facilitating bodies in India:

1. Agricultural and Processed Food Products Export Development Authority
2. Apparel Export Promotion Council
3. Basic Chemicals Pharmaceuticals & Cosmetic Export Promotion Council
4. Carpet Export Promotion Council
5. Cashew Export Promotion Council of India
6. Chemicals and Allied Products Export Promotion Council
7. Coffee Board
8. Coir Board
9. Coconut Development Board
10. Cotton Textiles Export Promotion Council
11. Council for Leather Exports
12. Engineering Export Promotion Council
13. Export Promotion Council for EOUs and SEZ Units
14. Electronics & Computer Software Export Promotion Council
15. Export Promotion Council for Handicrafts
16. Gem & Jewellery Export Promotion Council
17. Handloom Export Promotion Council
18. Indian Silk Export Promotion Council
19. Indian Oilseeds & Produce Exporters Association EPC (IOPEA)
20. Jute Products Development and Export Promotion Council - (JPDEPC)
21. Marine Products Export Development Authority
22. Project Exports Promotion Council of India
23. The Plastics Export Promotion Council

24. Powerloom development and Export Promotion Council
25. Pharmaceutical Export Promotion Council
26. Rubber Board
27. Service Export Promotion Council
28. Shellac Export Promotion Council
29. Spices Board
30. Sports Goods Export Promotion Council
31. Synthetic & Rayon Textiles Export Promotion Council
32. Tea Board
33. Telecom Equipment and Services Export Promotion Council (TEPC)
34. Tobacco Board
35. Wool and Woollen Export Promotion Council
36. Wool Industry Export Promotion Council

CONCLUSION

This paper is an attempt to throw light on the export financing mechanism and the role of export promoting and financing agencies in India. Developing countries like India concentrate more on increasing the value and volume of the export turnover to achieve economic growth to provide employment opportunities to the exporting sector, but the export sector involves high amount of risk, Financial institutions and supporting banks should extend and provide beyond international banking which in its narrow sense relates to delivery of trade products and services. This paper suggests for increasing the flow of bank credit to export sector, restructuring the interest rates. The stress is on introducing the new innovative services of counter trade, overseas borrowings, international factoring and bankers acceptance for accelerating promotion of exports. However, in the post-Liberalization world, it is impossible to sustain as a fast-developing economy without a strong push for domestic exports. And Indian exporters already reaped massive economic benefits by turning to exports and allied activities in the last 30 years. However, it was noted recently that the current economic slowdown due to pandemic situation has adversely impacted the progress of Indian merchandise exports. India needs to create a sustainable path for maintaining a steady exporting promotion policies and services outflow of goods to various economic destinations across the globe.

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