CHAPTER - 7

SUMMARY OF FINDINGS AND SUGGESTIONS

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This chapter provides an overview of the major findings of this desertation and proceeds to give some suggestions for improvising the export financing policy to be used as a tool for export promotion. Lastly, some future areas of research are indicated.

The comparative policy analysis of five sample countries revealed active involvement of state in monitoring and regulating the flow of export finance as well as in providing credit risk and guarantee facilities not covered by commercial insurance channels. Sanctioning and disbursing of export finance is handled by commercial banks except in West Germany and U.K. where sanctioning part is handled by specialised institutions. In none of the developed sample countries the system of interest subsidy to banks on export finance and cash incentives to exporters existed as in the case of India. This feature of Indian export policy is found in corresponding policies of all the developed countries, as the possibility for cross subsidisation for interest is very limited due to the social and developmental responsibilities shouldered by banks.

The cost implication of certain policy measures taken in the recent past in the export financing need to be highlighted. Firstly, the interest subsidy paid at the rate of 5 per cent and 3.85 per cent in case of pre and post shipment finance respectively to the banks is considered to be on the lower side. The return on export finance to the banks including the interest subsidy works out at nearly 12.50 per cent, which just covers the cost of funds to the banks. Secondly, refinance is provided by the Reserve Bank of India at 9 per cent interest which is the same as that of commercial loans, though, the maximum lending rate of export finance is just 8.65 per cent. Thirdly, from 11 September 1989, banks are involved in disbursement of cash compansatory support (CCS) which involves blocking of bank funds in the intervening period of three to four months without any return. The banks are required to pay CCS claim to the exporters and then claim the amount from R.B.I. In 1989-90, the CCS amount is estimated to be Rs.1691 crores. Further, banks will be required to increase additional cost for scrutiny of proposals, stationary, staff and risk of over payment by mistake. Lastly, there are no fiscal incentives for banks in export financing against a 100 per cent exemption on export profits enjoyed by the exporters.

All these factors clearly indicate that investments of banks in export financing is at a substantial sacrifice on their part in terms of lower returns leading to lower profitablity. This also explains the stagnancy of the share of export finance in total bank advances. An important policy implication is that any increase in export finance will have direct adverse impact on bank profitablity.

On the basis of the Indian export policy analysis and its comparative analysis with that of four leading countries in world exports undertaken by us, the following few recommendations are made for improving our exporty finance policy;

(1) The interest subsidy to the banks need to be increased by

atleast 3 per cent to make export finance a profitable business for commercial banks. This inducement will have direct positive bearing on increasing the share of export finance in total bank credit and increasing flow of export finance, perse, leading to increased exports. Hence, hiking of interest subsidy is the first step for improving the efficiency of export financing as a tool of export promotion.

(2) The number of days within which ECGC should settle the claims for losses must be stipulated. In U.S.A. it is five days. In India, we should have 15 to 20 days. In absence of fixity of this period, the exporters have often to wait for very long time for getting the claims settled which works as an disincentive for exporting.

(3) The special institutions for monitoring and controlling export credit (Exim Bank) and the one for providing insurance and guarantee facilities (ECGC) should be amalgamated into one institution for more efficient performance.

(4) A special institution modelled on Export Credit Guarantee Department (ECGD) of U.K. may be created for controlling, sanctioning and providing insurance facilities and guarantees to exporters with small business turnover. This measure will facilitate the small scale industries to increase exports. The single window approach can also be more conducive for channelising State help to small exporters besides providing cheaper finance on easier terms.

Special councelling facilities should be provided to the small exporter, for technical and marketing services. This must accompany the financial and cash incentives. The role of banks should be linked only to the delivery of credit.

Our analysis in chapter-3 reveals that exports from India increased at an annual growth rate of 9.34 per cent between 1969-89. The annual growth rate which was around one per cent per annum during second plan shot up to 19 per cent during the annual plans (1966-69) and declined to 14 per cent in Fourth Plan, and was at the same level in the Seventh Plan. The fluctuating trend of five year plan growth rate of exports indicates that the contribution of exports to the process of economic development lacks much to be desired. This statement is further substantiated by the ratio of exports to G.D.P. which remains almost stagnant over the last twenty years. In the last year of our study period (1987-88), it was less than 5 per cent. The poor performance of exports in the past indicates the urgent need of improving the export performance of the economy.

Export credit is one of the most important tools of state policy of export promotion. The behaviour of export credit is examined with reference to its annual growth trend and ratios of export credit to total exports and total bank credit. Export credit increased at a annual growth rate of 13 per cent during the last two decades, i.e. at a rate higher than that of increase in exports. It needs to be noted that the rate was marginally lower in the decade of 1980s compared to 1970s. The decline was much sharper in the first half of 1980s.

In the post bank nationalisation period, highest annual growth rate was achieved during the Fourth Five Year Plan (26 per cent) and the lowest was in the Sixth Plan (7 per cent). However, it more than doubled in seventh plan. The ratio of export credit to total exports range between 19 to 25 per cent.

The ratio of export credit to total bank credit indicates the performance of banks in the priority area of export promotion. This ratio declined from 8 to 5.6 per cent between 1969 and 1988, which is a clear indicator of the neglect of export credit by the banking sector. Why this has happened is one of the important question this desertation attempts to answer.

The mechanism of export finance suggests the hypothesis that post shipment credit in a country should be higher than a pre shipment credit. However, our analysis revealed that the share of pre shipment credit in the total export credit went up from 51 to 57 per cent, where as, the corresponding share of post shipment credit declined by 6 per cent, there by rejecting the hypothesis. The higher proportion of pre shipment credit may be due to misuse of concessional finance by diverting credit to other uses. It needs to be pointed out that around half the banks had pre shipment credit accounting for more than half of the total export credit, particularly eight banks namely, State Bank of Patiala, State Bank of Travancore, State Bank of Saurashtra, State Bank of Indore, United Bank of India, Allahabad Bank, Dena Bank and State Bank of India had the pre shipment credit ratio above 60 per cent of total export credit. It is recommanded that these banks should tighten the scrutiny of pre shipment loan proposals and use better judgement in determining the credit limits with a view to provide only need based credit.

The analysis of the distribution of export credit according to bank group during the study period reveal that the public sector banks accounted for 89 per cent of total export credit. Within the group, the share of nationalised banks was double than that of the S.B.I group. On the other hand, out of the 11 per cent share of private sector banks, share of foreign banks was much higher than the Indian banks' share. The policy implication is that S.B.I bank group needs to gear up its corporate policy and efforts so as to contribute more in the area of export promotion.

Bankwise analysis of export credit provided by public sector banks was undertaken with a view to evaluate the performance of each bank. The Oriental Bank of Commerce and New Bank of India occupied first and second ranks in terms of growth of total export credit and post shipment credit, where as, New Bank of India and Oriental Bank of Commerce rank first and second considering the growth in pre shipment credit Vijaya Bank occupied third rank considering growth of total export credit and pre shipment credit and fifth rank in case of post shipment credit. The small sized banks occupied the first five ranks considering the growth of total export credit. This implies that the bigger banks neglected the area of export credit.

The second indicator of bank performance used in our analysis is the ratio of export credit to total banks' credit. In 1987, corporation Bank was the only sample bank having ratio of above ten per cent. Union Bank had around 9 per cent, followed by

New Bank of India, Vijaya Bank and State Bank of Indore had 7 per cent and six other banks had 5 to 6 per cent. The remaining seventeen banks (which include all big and S.B.I group banks) had less than 5 per cent. Considering the nationalised banks as a whole, the ratio was 4.95 per cent which was marginally above the public sector banks' average, where as S.B.I group had a much lower ratio of 3.62 per cent. It is recommended that all banks having less than 5 per cent ratio need to undertake policy innovation and make special efforts in increasing exports finance.

Commoditywise analysis of export credit has great relevance for our study. But the relevant data is not available and hence we undertook a case study of one major nationalised bank. The analysis revealed that there was a high degree of concentration only in one commodity namely gems and jewellery, which accounted for nearly 44 per cent of total export credit of the bank in 1989 and 46 per cent of credit provided in three years period (1987 to 1989). Fabrics and piece goods accounted for other 10 per cent. Three other commodity groups, ready made garments, leather and leather manufacture and marine products had share ranging between 2 to 3 per cent, and five other commodities reported less than 2 per cent share. The dangerous depandence on gems and jewellary export financing has another disturbing dimension. This commodity has a very high import content and hence a very limited utility as foreign exchange earner. Our analysis revealed urgent need of diversification in export credit and introduction of new range of commodities. The Government has declared specific commodities as thrust commodities. The shares of thrust commodities and other commodities remain remarkably stable between 1987 to 1989, and the average ratio for the three years period was, thrust commodities 73.32 per cent and other commodities 26.68 per cent. This indicates that the banks have not paid attention to state policy of encouraging financing of thrust commodities.

The quantitative analysis of export finance has indicated possibility of misuse of concesssional credit by exporters by diverting it to other purposes. Similarly, majority of the public sector banks have a very insignificant share of total credit devoted to exports. With a view to provide clues for improving the export finance performance of banks, the practical problems faced by bankers are examined. The major problems identified were, excess finance drawn above the limits, irregular submission of stock statements, finance against the expired export contract, late shipment and non-execution or export orders, tendering of incomplete documents, non-compliance of required documentation, late realisation of export bills, not covering risks under ECGC policies and wrong selection of overseas buyer. Most of these problems arise from lack of proper business planning and negligence in following bank lending procedure by exporters. It is recommanded that awarness should be created among exporters about this specific problems faced by banks with a view to remove the operational bottle necks for increasing the flow of export credit.

The analysis in chapter 6 shows that the Exim bank has been innovative in offering several schemes during the study period (1982-1988) both to the commercial banks and exporters with a view to improve their competitivenss in the global market. The overall coverge of the fifteen schemes is comprehensive enough covering every stage of the export cycle of a product from procurement of raw materials to production, marketing and transportation of the goods abroad.

An examination of the operations of the Exim bank reveals that the major form of financial assistance provided by Exim bank to the commercial banks was in the form of refinancing facilities and rediscounting of foreign bills. This accounted for nearly 60 per cent of the total funds provided by the Exim bank. Inspite of this, the fluctuating trend of the refinance ratio during the study period indicated that the Exim bank has not been able to provide a strong and increasing support to export promotion activities. The decline in this ratio from 10 to 6 per cent between 1985 and 1987 is a cause of concern. The reasons for this need to be indentified by undertaking an indepth investigation of Exim bank operations.

Exim bank's credit to exporters has increased phenominally during the study period which is a welcome development as it directly accelerates the growth of exports. This implies that Exim bank is taking over more and more the role of export financier and maintaining a low profile in the field of refinancing.

The progress of the Exim bank in terms of non-funded activities during the study period turned out to be very poor. This indicates that more efforts need to be put in both in providing better guarantee schemes and their efficient implementation.

From our study we find that there are few areas which needs further probing in future, to continue research of policies and practices of banking which can make export financing an efficient tool of successful implementation of strategy of export promotion. These areas are, analysis of quantitative and qualitative aspects of export financing by banks having very poor ratio of export credit to total credit. Each bank has its own corporate culture, policy and procedures which require to be looked into. In view of the secrecy of data, the bank themselves are most suitable for undertaking this sort of investigation. Secondly, commoditywise analysis of export credit both at the macro level and at the bank level can be light bearing in many ways. Thirdly, each bank need to systematically examine the practical problems which constrain the growth of export credit. Lastly, research inquiry needs to be conducted into finding out reasons for the relatively poor performance of Exim bank in the area of refinance provided to banks and non-funded facilities.