

CHAPTER - 5

EXPORT FINANCING AT

BANK LEVEL :

CAPTURING

COMPLEXITIES

AND

PRACTICAL PROBLEMS

CHAPTER - 5

EXPORT FINANCING AT BANK LEVEL : CAPTURING COMPLEXITIES AND PRACTICAL PROBLEMS

Bank branches play a critical role in providing export finance as a catalyst for export promotion in the country. Hence, it is pertinent to find out the practical difficulties, if any experienced by bankers in general while transacting business with exporters.

The foregoing policy analysis reveals that State has provided special concessions and incentives both to exporters as well as financing bank for lending strong financial support to exporters. In spite of this, it is observed that export credit forms an extremely small proportion of total bank advances in the country. This implies that there are several constraints and difficulties experienced by banks in implementing the export financing policy. This chapter is an attempt to capture the practical complexities and difficulties experienced by the bankers at the bank level in the field of export financing. It is expected that such a documentation will help in creating an awareness among the exporters and better appreciation from the government of the banks' difficult role in export promotion. The significance of this chapter lies in the fact that there is hardly any literature available of this type.

The practical problems faced by the branch bankers in export financing described below are divided into two parts:

- (1) Pre shipment finance
- (2) Post shipment finance

I Problem of Pre Shipment Financing

(a) Misutilization of funds

It is observed in certain cases that exporters are not utilizing the finance obtained for the purpose for which it is given to them. Export finance as we know is given at a concessional rate of interest, so if the said fund are used even for a few days for other trading activities, it will be advantageous to the user. In many cases, exporters are also selling their products in a domestic market. Under such circumstances, it is very difficult for a bank to have control over the end use of funds given to the exporters. To avoid misutilization of export credit bank has to follow the laid down procedures and closely monitor the submission of the reports indicating the export turnover, so that the cheap finance is used for export activities only. When banks keep close watch over the finance given to the exporters, it may perhaps, result in delay in obtaining finance by the exporters. Hence, the banker has to achieve a fine balance between time taken for delivery of export finance and its monitoring.

(b) Excess finance

While taking into account the business of the exporter and so many others factors, banks are sanctioning the pre shipment and post shipment limits for financing the exporters. Exporters are supposed to avail finance within the limits sanctioned to them. However, many a time it is observed that exporters are coming to the banks with a request for asking the finance over and above the sanctioned limit. This has happened generally due

to the mismanagement of trading activities by the exporters. For considering the case for permitting the exporter to exceed the sanctioned credit limit, the bank has to once again scrutinise the case, which takes time. Under such circumstances, delay occurs in obtaining finance and for this also banks are being blamed by the exporters, which is not fair.

(c) Irregular submission of stock statement

For controlling the pre shipment finance extended to the exporters, stock statement plays a major role and is considered as a very important instrument for the financing bank. In case of pre shipment finance, the stock purchased by the exporter for manufacturing of goods is treated as security for finance. So with the help of stock statement, bank can have an access to its security. With the help of stock statement, bank can also justify the end use of finance to him. It is only with the help of stock statement that bank can make an inspection of stock lying with the exporter and be satisfied about the proper utilisation of finance extended to him. But here, it is observed that exporters in general are not submitting the stock statement as required by the financing bank, which results in dissatisfaction on part of the bank. Many a time bank has to make a regular follow-up for obtaining the stock statements from the exporters. Banks have also to keep such stock statements on record as bank records are subject to audit and inspection. Sometimes, if the exporter is very much irregular in submitting the stock statement, bank has to stop financing further packing credit which ultimately is a loss of export opportunity to the country. So, in sum, non-

submission of stock statement by the exporter is a big problem faced by the banks financing the exporters.

(d) Finance against the expired export contract

Banks are allowing pre shipment packing credit finance to the exporters either against confirmed export order or letter of credit from the overseas buyer. The bank can waive this requirement only in case of selected commodities as listed by the Government from time to time. On many occasions, it is observed that exporters are demanding finance against the expired contract. By expired contract, we mean a contract entered into by the exporter and overseas buyer where in delivery date has already passed away due to the non shipment of goods by the exporters. For financing against such expired contract, there is always a risk of non acceptance of goods by the overseas buyer. Exporters, under such circumstances always try to satisfy the banker about acceptance of exported goods and payment by the overseas buyer. Here, even if the bank wishes to finance, bank has to remain very careful. So we can say that exporters, by making such undue demand, waste time of the bank and put the bank in a difficult position. It is better that the exporter first amends the contract and then approach bank for finance.

(e) Late shipment of export goods

The maximum permissible period as prescribed by the exchange control regulations for pre shipment credit in our country is 180 days. But at the same time, it is further stated that bank has to allow pre shipment finance to the exporter according to his production cycle. But many a time it is observed

that exporters are not submitting the documents in time, which resulted in follow up by the bank for presenting the documents for exports and liquidating the advance as given by the bank.

Not only that, in many cases, it is observed that exporters are not submitting the documents with the maximum permissible period of 180 days. Under such circumstances, bank has to seek the permission from Reserve Bank of India for allowing extension in time limit to the exporter for submission of documents, which results in settlement of packing credit finance to the exporter. Apart from few very genuine cases, in almost all cases, the delay occurs due to the fault on part of the exporter. Here, bank has to do undue paper work and has to waste lot of its time.

(f) Non execution of export order

Over and above all the problems as come across by the banks for financing the exporters as stated earlier in this chapter, sometime it is also observed that exporter fails to execute the order against which he had availed pre shipment finance. Due to the various reasons, exporter some times is unable to export goods as committed by him, which results into the recovery of finance given by the bank. But in certain cases the exporters do not keep sufficient balance in their account to enable bank to recover its dues. This will again leads to the unnecessary correspondence and follow-up by the banks.

II Problems of Post Shipment Financing

(1) Submission of Incomplete documents

Banks are dealing in documents and not in goods. Exporters some times may not avail pre shipment finance and under such

circumstances he would come to obtain finance at the post shipment stage, after the actual exports. Here, banks are financing to the exporters under sanctioned documentary foreign bill purchase/discount limits. Banks are supposed to scrutinize the documents properly and then only bank can finance against such documents. It is observed that many a times, exporters are not submitting all the necessary documents. Banks are frequently coming across situation where incomplete documents are presented by the exporters to the bank for obtaining the finance. Here bank has to point out all irregularities and have to hold the payment of advance. Sometimes, banks have to make payment against such incomplete documents under 'Reserve' with an undertaking that if payment is not forthcoming, he will make good to the bank for the finance received by him. So we can say that presentation of incomplete documents for obtaining finance at the post shipment stage has resulted in waste of time at the bank level.

(2) Submission of documents not as per the terms of letters of credit

Many a time exporters are receiving the letter of credit, opened by the importer's bank in his favour. The L.C. opening bank will make the payment only if the document presented are as per the terms of the credit. However, in some cases, it is observed by the negotiating bank that exporters are not submitting the documents strictly as per the terms of the credit. In such cases, bank has to make strict scrutiny of the documents and return the documents to the exporters, if they are not

prepared as per the terms of the credit. Again, after making necessary corrections and amendments exporter will present documents to the bank, and the bank has to repeat the exercise of scrutiny of documents. This is how bank has to make efforts twice for the same transaction, involving waste of time and efforts.

(3) Late realisation of export bills

As per the exchange control regulations prevailing in our country, the payment of export bill must be received in India within the period of 180 days from the date of shipment. If the payment of export bills are not received within stipulated time, such bills are reported to Reserve Bank of India, in a quarterly statement called XOS statement. In certain cases, it is observed by the bank that the payment against bills where bank has extended the finance are not received by them within the stipulated period of 180 days. In such cases, the bank has to make constant follow-up with the foreign correspondent for obtaining the payment. It is experienced by the bank that in many cases exporters are not following up with overseas buyers for early payment of the bills. As exporters have already received their money, they are not very much worried about the realisation of bills. No doubt, Reserve Bank of India, on the strength of information received from XOS statement, follows up with the exporters for early realisation of bills. We would like to state here that, if exporter will remain conscious about early realisation of his bill and make the follow-up with overseas buyer, bank's burden to that extent can be reduced.

(4) Excess Finance

As we know that banks are disbursing finance to the exporter against the pre shipment and post shipment limits sanctioned by them. While sanctioning these limits to the exporters, various factors like business, financial status, experience are being considered by the banks. Many a time, it is observed that exporters are demanding the finance in excess of limits sanctioned to them. This has happened either due to the non realisation of bills financed by the banks or due to more new orders received by the exporter. If the limit exceeds due to the non realisation of bills financed earlier, then this is not a good position as it reveals mis management of trading activities by the exporters. Even for allowing the excess finance to the exporter, bank has to enter into a lengthy procedure. So, we can say that sometimes due to the misplanning by the exporter, bank has to suffer. Some exporters are in a habit of demanding excess finance very regularly, which causes lot of inconvenience to the financing banks.

(5) ECGC Policy

Export Credit and Guarantee Corporation of India is providing export guarantee in our country. With the different policies, it protects the exporter and the financing bank, at different stages of export transaction and this way it minimises the risk in exports. Against all these, ECGC charges from the exporter bank a nominal amount of premium. Even with this, it is observed that some exporters are not taking ECGC policy, which in turn increases the risk of loss on part of the financing bank.

Exporters argue often that in case of default the procedure for obtaining the claim is very lengthy and that sometimes ECGC does not pass their claims for one or the other reason. Further, where exporter is not covered by ECGC policy, the financing bank also gets lesser amount of claim under its own policy. It is due to this reason that bank while sanctioning the limits for export finance stipulates the conditions for compulsorily obtaining the ECGC policy by the exporter. Again, it is observed that exporters are taking the policy only at the time of sanction and thereafter they do not renew it which ultimately increases the burden of risk on the financing bank.

(6) Wrong selection of overseas buyer

Many a time it is observed that exporter does not remain careful in the selection of buyer for his goods at the overseas centre. This often leads to the non acceptance of goods exported by the overseas buyer. It is also observed here that sometimes overseas buyer in such cases demands for reduction in value of goods. Even for allowing reduction in value of invoice beyond certain limit or amount, bank has to obtain prior approval from the Reserve Bank of India. Here, under such circumstances, bank has to make lot of efforts through overseas correspondent for obtaining the payment of such bill where bank has extended the finance. In case of non payment of bill, bank has to make all the arrangements for import of such goods back to India. So due to the wrong selection of overseas buyer, sometimes exporter bank is put to hardship, more than the exporter himself. It is due to this reason that banks before financing the exporter, obtain the

confidential report about the overseas buyer, which ultimately results into the delay in obtaining the finance by the exporter. This means that exporter has to remain careful for selection of overseas buyer in order to save time both of him and of the financing bank.

Over and above the major problems experienced by banks in financing the exporters, many a time, it is observed that exporters are demanding certain things which are against the exchange control regulations. To illustrate this, say, many a time exporters came with demand that export documents should be sent directly to the overseas buyer, and not to the correspondent bank. Here, our exchange control regulation stipulates that this should be permitted, only if advance payment against such exports is already received by the exporter. This is only one example, but like wise banks come across several such problems in day to day business, which discourages the banks from financing exporters.

Conclusion

The above account reveals that majority of the problems faced by banks arise from negligence of the exporters in complying with stipulations regarding documentation and lack of proper business planning. Hence, better awareness of these problems among exporters followed by willingness to cooperate with the banks is required ensure faster growth of export finance.