Satisfaction with Export Credit Delivery System: A Survey of Indian Banks and Exporters

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PREFACE

An efficient system for providing export finance to Indian exporters will add to their international competitiveness. Such finance is required for short periods of time both before and after the shipment of an export order. Banks provide export finance at a rate lower than their prime-lending rate.

The Reserve Bank of India (RBI) regulates the provision of export credit by the commercial banks in India, both Indian and foreign, by stipulating that a minimum proportion of their total lending be provided as export finance. From time to time, the RBI has announced various rules and guidelines to ensure smooth and efficient operation of this system. In recent years the RBI has organised seminars at the major exporting centres for the benefit of exporters and branch level bank officials to resolve problems relating to export credit. The RBI also holds quarterly meetings of the All India Export Advisory Committee (AIEAC) to deliberate on issues raised by export organisations and take appropriate action. Further, exporters can call on concerned RBI officials at a designated time-slot on any working day to redress their grievances.

In order to get feedback on this simplified procedure set up by RBI for export credit delivery and to assess exporters' satisfaction with bank services, RBI proposed in its policy statement for 2001-02, to conduct a survey with the help of an independent outside agency. The Mid-Term Review of Monetary and Credit Policy for 2001-2002 announced that the survey would be undertaken by NCAER.

NCAER is extremely grateful to the RBI for having provided it with an opportunity to address the much discussed issue of export finance. We would like to put on record our sincere thanks to Mr. Vepa Kamesam, Deputy Governor, Reserve Bank of India for having put his confidence into our organisation. Special thanks are due to the RBI officials who have helped the NCAER team to accomplish this work successfully.

We hope that this exercise will add to the understanding of this complex issue. While the survey reveals a generally high level of satisfaction by exporters, there is considerable variation by sector, size and region, which will provide ample opportunity for follow-up action by the banks and the RBI. In addition, the present study can serve as a benchmark, so that follow-up studies can track progress, on both a national and regional level.

April 2002

Suman Bery

Director-General

Acknowledgement

The present study is an attempt to analyse the exporters' level of satisfaction with respect to the prevailing export-credit delivery system in India. Getting the requisite information from 327 bank branches and 1762 exporters from all over the country is an uphill task. The study would not have been completed without help received by NCAER from various officials of the Reserve Bank of India both at their Central office at Mumbai and at various regional offices spread all over India. We would like to sincerely acknowledge the help and suggestions received from them during different phases of the study. The group of RBI officials associated with the study from the Central office is:

? Shri S.S. Gangopadhyay, Ex.CGM, IECD, now RD, Hyderabad.

? Shri K. Vijayraghvan, CGM, IECD.

? Shri S.D. Sapkal, DGM, IECD.

? Shri K. K. Mahajan, DGM, ECD.

? Ms. Abha Prasad, Director, DEAP.

? Shri A. K. Srimany, Director, DESACS

? Shri E. Varghese, Asst. Manager,IECD

Apart from RBI officials at central office, we would also like to acknowledge the help received from the following officials from RBI regional offices:

New Delhi: Shri Y. S. P. Thorat (RD, New Delhi, now RD, Maharashtra), Shri G. Srinivasan (GM, DBS), Shri D. K. Bakshi (DGM, DBS, now at Kanpur regional office), Shri O. P. Khannegwal (AGM, DBS).

Jaipur: Shri Ramesh Chander (RD, Rajasthan, now RD, Delhi), Shri C. L. Dua (DGM, ECD), Shri L. M. Bhat (Manager, ECD).

Kolkata: Shri Baidya Nath Datta (DGM).

Bhubaneshwar: Shri. R. K. Singh (DGM).

Kanpur: Shri V. K. Maurya (GM, ECD).

Chennai: Shri R. R. Verma (DGM, DBOD).

Chandigarh: Shri C. L. Tura (AGM).

Bhopal: Shri B. S. Chawla (AGM, ECD).

Kochi: Shri P. C. Pillai (AGM, ECD).

Bangalore: Shri S. S. Pujari (DGM, DBOD).

Hyderabad: Shri S. C. Kakar (RD).

We would also put on record our sincere thanks to all the bank branches and exporters who have spent their valuable time to provide us with a rich primary data information.

The fieldwork would not have been completed without the help extended by various export promotion councils and other officials. We sincerely acknowledge the help provided by the following export promotion councils/officials during the course of fieldwork:

? Apparel Export Promotion Council
? Automotive Component Manufacturers Association of India.
? Electronics and Computer Software Export Promotion Council.
? Export Promotion Council of Handicrafts.
? The Gems and Jewellery Export Promotion Council.
? Centre for Development of Stones.
? Federation of Rajasthan Handicraft Exporters.
? Cotton Textiles Export Promotion Council.
? Engineering Export Promotion Council.
? Development Commissioner, FALTA Export Processing Zone.
? Directorate General of Commercial Intelligence and Statistics.

Last, but not the least, we sincerely acknowledge the help received from Shri Vishnu G. Tandon. His vast experience in areas of banking as well as exports stood us in good stead during the process of designing questionnaires for bankers and exporters.

Study Team

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Executive Summary

Introduction

Export finance plays a crucial role in enabling exporters in accepting and efficiently executing their export orders. Export credit is required for short periods of time both before and after the despatch/shipment of an order. While the pre-shipment export finance is required as working capital for accomplishing timely production, packing and shipment of the orders, the post-shipment finance facilitates in sustaining exporters' business operations while still waiting to receive payments due from foreign buyers. Commercial banking institutions have been important sources of export credit in India.

The Reserve Bank of India regulates provision of export credit by the commercial banks in India, both Indian and foreign, through stipulating some minimum proportion of their total lending to be provided as export finance. From time to time, the RBI announces various rule and guidelines to ensure smooth and efficient operation of this system.

In order to have a feedback on simplification of procedures by the RBI for export credit delivery as also the level of exporters' satisfaction with bank services, the policy statement for the year 2001-02 proposed to conduct a survey with the help of an independent outside agency. It was announced in the Mid-Term Review of Monetary and Credit Policy for the year 2001-2002 that such a Survey would be undertaken by NCAER, New Delhi.

The present primary survey based study is an attempt to analyse the existing export-credit delivery system in India. The focus has been on short-term working capital credit requirements of the Indian exporters, which are mainly taken care of by the scheduled commercial banks. These banks provide exporters with financial and other services. While the financial services include provision of export finance, other services include handling of export documents, counselling and advisory services, facilitating foreign exchange operations of exporters, etc. The foreign exchange operations of the banks are guided by the RBI and FEDAI regulations.

Methodology

Bankers' views on and exporters' satisfaction with the existing export credit delivery system have been analysed through a primary survey of bank branches and exporters across the country. A sample of 383 bank branches was selected at random out from their two categories (A and B) and four groups (SBI and associate banks, nationalised, private and foreign). A sample of 2090 exporters was selected at random from among 34 product categories spread over 29 cities in four different zones of India (North, East, West, and South). The sample represented small, lower-medium, medium and large exporters roughly in the ratio of 2:2:1:1 A total of 327 valid responses from banks along with 1762 from exporters have finally been analysed.

Separate questionnaires were designed to survey banks and exporters. While bankers' questionnaire was structured to obtain bankers' view on and adherence to the RBI norms and guidelines, that for exporters was intended to get information on their satisfaction with the existing credit delivery system along with suggestions for improvement.

Key Findings

Bank Responses

? Banks have been found to be granting export credit for the working capital needs of a vast majority of exporters.

? Except for some apparent hesitation on the part of foreign banks, various bank groups cater to the needs of new exporters.

? Apart from certain important criteria regarding financial standing of the export unit asking for finance, nearly 84 per cent of all the bank branches have been found skirting the RBI suggestion with regard to "no insistence" on *collateral security*. Relatively more frequent occurrence of this situation across regions is in bank branches in north while across bank groups nationalised and private bank branches have been observed behaving like this.

? Bank branches in east and foreign banks across the country are relatively conservative in catering to the needs of small exporters, i.e. with export turnover of less than Rs. 50 lakh.

? Nearly half the bank branches have reported no fixed target of achieving export credit disbursal during the year 2000-01.

? A Bankers' Adherence Index (BAI) to the RBI guidelines has been prepared using and integrating bits and pieces of information "self-revealed" by the bank branches. At the all-India level, about 8 per cent of bank branches fall under the *poor* category with regard to their adherence to the RBI's guidelines for export credit delivery system. About 14 per cent of the bank branches get *excellent* grade. About 21 per cent of all the bank branches turn out as *average* and 57 per cent as *good*.

? Analysing the *excellent* grade for different groups of banks, foreign banks stand apart with a distinction. About 29 per cent of all the foreign bank branches under survey qualify as *excellent*. In the case of SBI and associate branches as low as 6 per cent turn out as *excellent*. The nationalised and private bank branches are "revealed" mediocre performers with less than 15 per cent turning out as *excellent*.

? Nationalised banks are leaders in providing export finance, followed by SBI and associates, private banks and foreign banks. Nearly one-sixth of exporters find pre-shipment sanction grant application form "difficult" and "very difficult". Relatively large proportion of small and lower-medium exporters finds this form difficult. With regard to the bank group association, exporters associated with nationalised banks are relatively least satisfied and those associated with foreign-banks are most satisfied.

Exporter Responses

? Nearly one-third of all exporters feel that linking export credit provision to collateral security is a major problem. A larger proportion of exporters in north and east finds this to be a problem as compared with exporters of west and south.

? ECGC cover is the most preferred alternative to collateral security followed by confirmed orders / LCs, financial position of the company; past track record, personal guarantees by directors / partners.

? Nearly two-third of the exporters feels that facility to interchange between pre- and post-shipment credit limits will help exporters.

? One of the most important findings of this study has been that more than three-fourths of exporters are satisfied with overall bank services relating to export credit delivery. Nearly one-fourth of exporters has perceived it as “excellent” and more than half as “good”. The only exception is eastern region where only one-eight perceive it as “excellent” and less than half as “good”.

? On one hand relatively low proportion of small exporters has perceived bankers’ performance as “excellent”, whereas relatively high proportion of large exporters perceives it as “good”. While a relatively high proportion of exporters of readymade garments has perceived bankers’ performance as “excellent”, relatively high proportion of exporters of textiles perceives it as “good”.

Suggestions for the RBI

? The RBI needs to pay greater attention to problems faced by the exporters by giving greater emphasis to specific regions, size-groups, product-categories, and bank-group association of exporters through resolving the typical problems that these classes of exporters face. The present study has pointed to the segments where the satisfaction with the credit system is relatively lower. Monitoring the services rendered by the financial system on a regular basis would provide a basis for steps to make the system more responsive to export needs.

Satisfaction with Export Credit Delivery System: A Survey of Indian Banks and Exporters

Chapter 1 - Introduction

1.1 Role of Export Credit

Export finance plays a crucial role in enabling exporters in accepting and efficiently executing their export orders. Export credit is required for short periods of time both before and after the despatch/shipment of an order. While the pre-shipment export finance is required as working capital for accomplishing timely production, packing and shipment of the orders, the post-shipment finance facilitates in sustaining exporters' business operations while still waiting to receive payments due from foreign buyers. Commercial banking institutions have been important sources of export credit in India.

The provision of export finance differs from the provision of finance to production oriented to domestic markets due to risks associated with export credit. Such risks include probable credit as well export hazards in various forms. The standard credit risks include situations in which the buyer does not pay, buyer's financial insolvency where the buyer can not pay, refusal of receipt of exported goods, and/or unfair termination of the contract. Export related risks include foreign exchange risk, and country risks including the potential threat of losses due to political and economic events beyond the control of the exporter. These risks have to be considered by both the exporters as well as the credit agencies.

Export credit plays an important role in risk management and obtaining contracts for exporters. It has the potential to augment the international competitiveness of a country by leading to geographical diversification of exports and developing new markets.

It is important for a country to develop and maintain an efficient system of providing export credit lest it should become a bottleneck in winning an export contract. In a way, it adds to international competitive strength of exporters of a country.

1.2 Export Credit in India

India does not provide direct subsidies to exporters. Instead, India relies on a wide range of indirect measures, including duty and tax concessions, export finance, export insurance and guarantee, and export promotion and marketing assistance. We shall focus mainly on export finance in this study with some references to export insurance and guarantees.

Commercial banks provide export finance at a rate lower than their prime lending- rate. With progressive deregulation of interest rates, banks now have considerable flexibility to decide their deposit and lending rate structures and manage their assets and liabilities with greater efficiency. On the lending side, banks are free to prescribe their own lending rates including the Prime Lending Rate (PLR). On the deposit side, banks have been given the freedom to offer a fixed rate or a floating rate subject to the approval of their Boards.[1]

Keeping in view the international practice, the scheduled commercial banks have been provided with more operational flexibility through the introduction of the Tenor Linked Prime Lending rates (TPLRs) since April 1999. The PLR was converted into a benchmark rate with the requirement of this being a floor rate for loans above Rs.2 lakh being relaxed. With effect from April 19, 2001, commercial banks have been allowed to lend at sub-PLR rate for loans above Rs.2 lakh.

The rupee export credit interest rate structure was changed with effect from May 5, 2001 by providing ceiling rates linked to the relevant PLRs of the banks. This was expected to introduce healthy competition and provide exporters a greater choice to avail of banking services in terms of interest rate, quality of service and transaction costs. The RBI effected a reduction in ceiling rate on export credit by another 1 percentage point (i.e. up to 2.5 per cent less than short-term PLR) across the board on September 26, 2001, which would remain valid up to September 30, 2002.

The priority sector lending is an important function of India's commercial banks. It includes lending to agriculture, small-scale industries (SSI), transport operators, etc. Export credit is over and above the priority sector. The foreign banks operating in India have to allocate a target of 32 per cent of their net bank credit (NBC) to priority sector and export finance with sub-sectoral targets of 10 per cent for SSI and 12 per cent for exports. The proportion of gross bank credit allocated to exports has witnessed significant changes during the last two decades. It increased from less than 6 per cent in the mid-1980s to over 12 per cent by the mid 1990s with a downward trend toward 10.5 per cent during the late 1990s (Fig 1.1). The share of export credit to total exports has been about 25.2 per cent during 1980-81 to 1999-2000. While it was about 24 per cent in the 1980s, it increased to about 26.4 per cent in the 1990s. There has been a general decline in this ratio from over 29 per cent during the late 1980s to less than 24 per cent during the late 1990s (Fig. 1.2).

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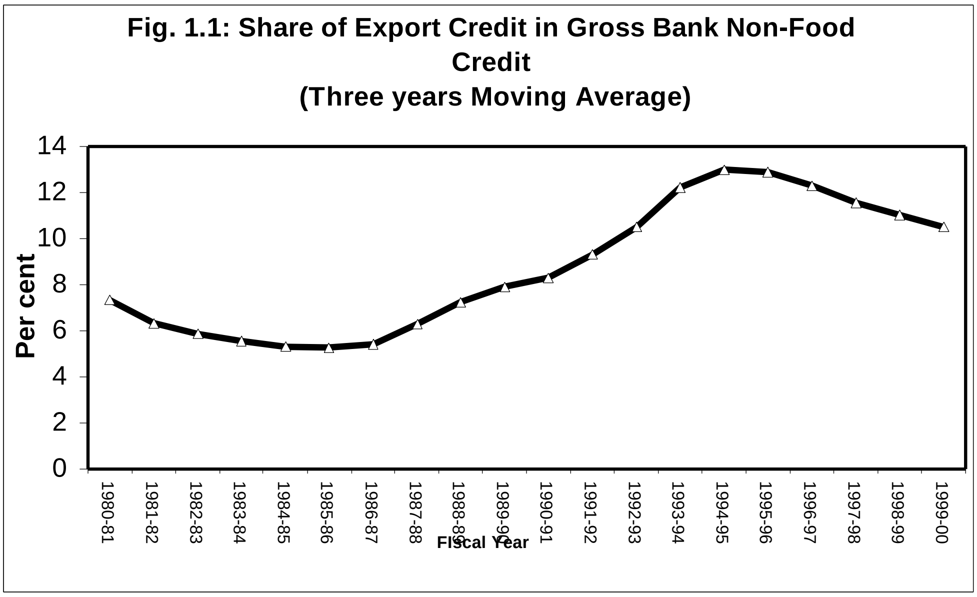
[1] Discussion in this and the following paragraphs is base on RBI's report on Trend and Progress of Banking in India, 2000-01.



Whereas export finance is provided by the commercial banks, the insurance cover to Indian exporters is provided by the wholly government-owned Export Credit Guarantee Corporation of India (ECGC). This insurance cover is against the risk of non-realisation of export proceeds due to political or commercial reasons and to provide guarantees to financial institutions to facilitate the granting of credit facilities to exporters on liberal basis. It provides a range of credit risk insurance covers to exporters against loss in export of goods and services. It offers guarantees to banks and financial institutions to enable exporters obtain better facilities from them.[2] ECGC provides guidance to exporters in export related activities as well as information on credit worthiness of overseas buyers in about 180 countries about which it maintains its own credit ratings. It also assists exporters in recovering bad debts. The ECGC is a service organisation, with profit not being the sole motive. Its operation has shown surplus of income over expenditure and in each of the six years, viz.1995-96 to 2000-2001.[3]

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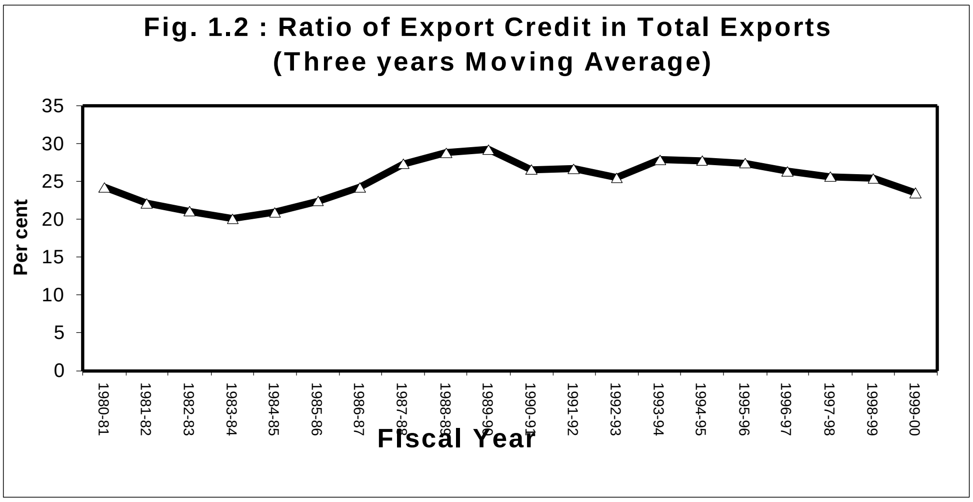
[2] It also provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad. However, we do not emphasise this aspect since the present study deals only with short-term credit insurance.

[3] Government of India: Annual Report (2000-2001), Ministry of Commerce and Industry, Department of Commerce.While gross surplus of income over expenditure (before tax) was Rs. 37 crore for the year 1995-96, its target was Rs. 52 crore for the year 2000-01.



Monetary and Credit Policy for the Year 2001-02

Prior to the MCP statement, 2001-02, export credit was provided by prescribing specific rates of interest on pre-shipment credit and, mostly as a ceiling in the case of post-shipment credit. The MCP statement, 2001-02, proposed to make interest rate on export credit by banks to be indicated as a ceiling rate in all categories including pre-shipment credit. Such ceiling rates would be linked to the Prime Lending Rates (PLRs) of respective banks available to their other domestic borrowers. The ceiling rate was fixed at 1.5 per cent below the PLR in the case of pre-shipment credit up to 180 days and post-shipment credit up to 90 days. The ceiling rate was later revised to 2.5 per cent below PLR in the Mid-Term Review of Monetary and Credit Policy for

the year 2001-02 announced in October 2001. The ceiling rate for pre-shipment credit for a period beyond 180 days but up to 270 days as well as post-shipment credit beyond 90 days but up to 180 days (from the date of shipment) would be PLR plus 0.5 per cent (see Table 1.1).

Table 1.1 Structure of Export Credit Interest Rate

Category	Before May 4, 2001	From May 5, 2001	From September 26, 2001 *
Pre-shipment Credit			
i) Up to 180 Days	10.0	Not Exceeding PLR minus 1.5 per cent	Not Exceeding PLR minus 2.5 per cent
ii) Beyond 180 Days and Up to 270 Days	13.0	Not Exceeding PLR plus 1.5 per cent	Not Exceeding PLR plus 0.5 per cent
Post-shipment Credit			
a) On Demand Bills for Transit Period (as Specified by FEDAI)	Not Exceeding 10.0	Not Exceeding PLR minus 1.5 per cent	Not Exceeding PLR minus 1.5 per cent
b) Usance Bills			
i) Up to 90 Days	Not Exceeding 10.0	Not Exceeding PLR minus 1.5 per cent	Not Exceeding PLR minus 2.5 per cent
ii) Beyond 90 Days Up to 6 Months	12.0	Not Exceeding PLR plus 1.5 per cent	Not Exceeding PLR plus 0.5 per cent

Note: Since the rate announced from May 5, 2001 are ceiling rates, banks would be free to charge any rate below the ceiling rates.

* Announced for period up to March 31, 2002 but extended up to September 30, 2002 by another RBIs order dated March 11, 2002.
Source: RBIs circulars dated September 24, 2001 and March 11, 2002.

On September 24, 2001 RBI declared a special financial package in consultation with the Government of India, for large value exports of select products, which are internationally competitive and have high value addition. The details of the financial package are furnished below.

i) The products eligible for export under special financial package are:

a) pharmaceuticals (including drugs, fine chemicals),

b) agro-chemicals (including inorganic and organic chemicals),

c) transport equipment (including commercial vehicles, two and three wheelers, tractors, railway wagons, locomotives),

d) cement (including glass, glassware, ceramics and refractories),

e) iron and steel (including iron & steel bars/rods and primary and semi-finished iron & steel),

f) electrical machinery (including transmission line towers, switch gear, transformers).

ii) Manufacturer exporters of above products with export contracts of Rs.100 crore and above in value terms in one year will be eligible for the special financial package.

iii) Validity period of the financial package will be from October 1, 2001 to September 30, 2002.

iv) Exporters covered under the special financial package will be extended credit at concessional rate of interest for an extended period up to 365 days at pre-shipment as well as post-shipment stages as against the maximum periods of 270 days and 180 days respectively applicable for normal export credits. Further, the rate of interest of export credit for period beyond 270 days and up to 365 days at pre-shipment stage will be the same as for normal pre-shipment credit for period beyond 180 days and up to 270 days. Similarly, post-shipment credit will be extended for periods beyond 180 days and up to 365 days at the same rate of interest as applicable for normal post-shipment credit for the period beyond 90 days and up to 180 days.

Given that in the forward market premium for US dollars, the effective rate of credit to an exporter getting export credit at nominal rate of 8.5 to 9 per cent would actually be lower. Given that the forward premium for US dollar was about 4.5 per cent in April 2001, the nominal rate interest at 8.5 to 9 per cent would actually get translated into around 4 to 4.5 per cent through selling the export earnings in the forward market. Such a rate is expected to be internationally competitive. Exporters were given the option to avail of pre- and post-shipment credit in foreign currency at a ceiling rate of LIBOR plus 1 percentage point instead of earlier 1.5 percentage points.

It was announced in the Monetary and Credit Policy (MCP) statement for the year 2001-02 that the RBI had been arranging seminars at major exporting centres for the benefit of exporters and branch level bank officials for resolving the problems relating to export credit and meeting foreign currency requirements. Further, the RBI has also been holding meetings of All India Export Advisory Committee (AIEAC) at quarterly intervals for deliberating on the issues raised by exporter organisations and taking appropriate action. Further, exporters have also been advised that they can call on concerned senior officials of RBI an any working day during a designated time-slot without prior appointment for redressal of their grievances.

Present Study

In order to have a feedback on simplification of procedures by the RBI for export credit delivery as also the level of exporters’ satisfaction with bank services, the policy statement for the year 2001-02 proposed to conduct a survey with the help of an independent outside agency. It was announced in the Mid-Term Review of Monetary and Credit Policy for the year 2001-2002 that such a Survey would be undertaken by NCAER, New Delhi.

1.3 Context and Need for the Present Study

It was during the years 1998-99 and 1999-2000 that the RBI had introduced several measures to ensure timely delivery of credit to exporters and remove procedural hassles. These measures included:

? Provision of 'On Line credit' to exporters;

? Extension of 'Line of Credit' for longer duration for exporters with good track record;

? Peak/non-peak credit facilities to exporters;

? Permission for interchangeability of pre-shipment and post-shipment credit; and

? Meeting the term loan requirements of exporters for expansion of capacity and modernisation of machinery and upgradation of technology.

It was indicated in the Mid Term Review of Monetary and Credit Policy for the year 2000-01 that the suggestions received from exporters and export trade organisations were examined by the RBI and the Bankers' Group and guidelines were issued to banks to further simplify procedures for export credit. These included:

? Adopting a flexible approach in negotiating bills drawn against LCs over and above sanctioned limits;

? Delegating discretionary/higher sanctioning power to branches;

? Authorisation to branches for disbursing a certain percentage of enhanced/ad-hoc limits pending sanction; and

? To incorporate all sanctions including waiver of submission of order/LC for every disbursal and export credit and submission of a statement of orders/LCs in hand at periodical intervals in the sanction letter and advise ECGC immediately about the terms of sanction to facilitate faster claim settlement.

Improvements were also made in the procedures for handling of export documents and fast-track clearance of export credit at specialised branches of banks. Similarly, new simplified guidelines were issued for software services, project services and software products and packages.

1.4 Objectives of the Study

The present study has five major objectives. To investigate and analyse:

1. Status of the existing export-credit delivery system in India;

2. WTO compliance of India's export credit system;

3. Assessment of satisfaction of Indian exporters with credit delivery system;

4. Banks' adherence to RBI guidelines on export credit; and

5. Suggest measures to further improve the export credit delivery system.

Bankers' views on and exporters' satisfaction with the existing export credit delivery system have been analysed through a primary survey of bank branches and exporters across the country. A sample of 383 bank branches was selected at random from their two categories (A and B) and four groups (SBI and associate banks, nationalised, private and foreign). A sample of 2090 exporters was selected at random from among 34 product categories spread over 29 cities in four different zones of India (North, East, West, and South). The sample represented small, lower-medium, medium and large exporters roughly in the ratio of 2:2:1:1.[4] A total of 327 valid responses from banks along with 1762 from exporters have finally been analysed.

Separate questionnaires were designed to survey banks and exporters.[5] While bankers' questionnaire was structured to obtain bankers' view on and adherence to the RBI norms and guidelines, that for exporters was intended to get information on their satisfaction with the existing credit delivery system along with suggestions for improvement.

1.5 Structure of the Report

The status of India's export credit delivery system in the backdrop of the national as well as the international scenario have been discussed briefly in the preceding parts of this chapter. A discussion on WTO compliance of India's export-credit delivery system is provided in Chapter 2. The survey methodology and the sampling design for selection of banks and exporters are the subject matter of Chapter 3. Detailed analysis of the findings of the study has been reported in Chapter 4. Results of the study along with prospective suggestions are outlined in the concluding Chapter 5.

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[4] Size of the exporter is based on export turnover during 2000-01. Small refers to turnover less than Rs. 50 lakh, lower-medium refers Rs. 50 lakh and less than Rs. 5 crore, medium refers to Rs. 5 crore and less than Rs. 15 crore, and large refers to Rs. 15 crore and above.

[5] See Annex 2.

Chapter 2 - Export Credit in India: International Perspective

2.1 Theoretical Backdrop

The decade of 1990s was of immense significance for India's economy in the context of the unilateral as well as the global changes in trade policy. Apart from the impact of various unilateral economic reforms undertaken since 1991, the economy also had to reorient itself to the changing multilateral trade discipline within the newly written GATT/WTO framework. The new policy regime accords a vital role to export of goods and services in the growth process based on the perception that an open trade regime is a pre-requisite for attaining higher economic growth. The incentives, based primarily on exchange rate, have become relatively uniform for production across export and import substituting goods. Benefits of opening up of trade regime on growth and welfare are achieved through two alternative perspectives: *first* from traditional trade-theoretic viewpoint of the efficiency enhancing role of free trade in a static context, and the *second* from the perspective of growth accounting and intertemporal efficiency and welfare.[6]

There are various arguments in literature to justify the use of export subsidies. These include the a) use of export subsidies by one's competitors; b) neutralisation of import duties; c) infant industry argument based on capital market imperfections and externalities; and d) second best considerations related to moral hazard and adverse selection. The arguments for export subsidies thus fall into two categories: those based on welfare maximisation as the objective (academic economists) and those that take export expansion or export diversification as the target (policy analysts). In the former case, the arguments often suffer from the same flaws as the arguments for protection, advanced during 1950s through 1970s to promote import substitution. In the latter case, based on Latin American experience, it is far from clear export subsidies constitute the least-cost instrument of achieving export expansion or diversification.[7] In the case of India, there is no convincing case till date to support the argument that "export credit subsidies lead to export growth".

With import-substitution policies having failed and now discredited, there has been a shift in favour of interventions on behalf of export interests. Two types of export subsidies have increasingly been used during the recent years: export-credit and insurance subsidies. Export-credit subsidies are often defended on the ground that the market fails to support potentially

[6] See Srinivasan and Bhagwati (2001) for details.

profitable but risky exports. However, this need not be the case if lenders are risk neutral. Even if lenders are risk averse, it is not clear that subsidies to profitable but risky exports are welfare enhancing. Export-credit-insurance subsidies are advocated on the ground that adverse selection and moral hazard problems cause insurance markets to fail. However, it is not clear that the government has a particular advantage over the market in dealing with adverse selection and moral hazard.

Under typical supply, demand, and cost conditions, subsidising export credit produces a combination of some loss in efficiency together with redistribution of income away from citizens providing the subsidy and towards exporters and foreign importers.[8] "Subsidised export financing has been described as protectionism in reverse. It is certainly economic nationalism, and its effect on world trade could become as distorting and, in time, as paralysing as that of straight protection…. Perhaps something like a GATT round of negotiations may eventually be needed to bring the financing of international trade back to reason." [9]

2.2 International Perspective

Export credits have traditionally been supported through a) direct loan and subsidy programmes; and b) insurance and guarantee programmes. This study concentrates on the first set of programmes.

Various attempts have been made since 1930s to control subsidised export credit terms. The Berne Union (The International Union of Credit and Investment Insurers) was established in 1934 to provide a forum for the discussion and exchange of information among member export credit insurance agencies. Its four founding members were France, Italy, Spain and the United Kingdom. Over the years, the Berne Union has made non-binding recommendations on the regulation of export credit policies. However, beginning in the late 1960s, members increasingly disregarded these guidelines.[10]

The Berne Union now has about 50 large export credit agencies from 40 countries as its members. Institutions and not their governments are members. The Union works for the acceptance of sound principles of export credit and investment insurance and the exchange of information and experience. It has also adopted a series of agreements and understandings by which members undertake to abide by certain maximum `credit terms' and `terms for goods'.

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[7] Panagariya (2000)
[8] Fleisig and Hill (1984).
[9] Fry (1979).
[10] Fleisig and Hill (1984).

India was the 15th country to join the Berne Union in 1957 with Export Credit Guarantee Corporation (ECGC) becoming its 17th member organisation.[11]

It was in 1963 that the Organisation for Economic Cooperation and Development (OECD) Trade Committee established a Group on Export Credits and Credit Guarantees. It was in 1974 that the export Credit Group of OECD concluded an informal agreement which has come to be known as the "Gentlemen's Agreement" Jurisdictional confusion slowed the negotiations in 1975. Both the European Commission and individual governments claimed the right to negotiate on commercial policy for European Committee (EC) members. The European court of Justice awarded this authority to the EC. The export credit agreement concluded in 1976 was enacted as a series of unilateral declarations by the nations involved in its negotiation rather than as a formal agreement and came to be known as the "Consensus". Thirteen more OECD countries accepted it in 1977. The dispute with the EC was finally resolved in 1977, and on April 1, 1978 the "Arrangement on Guidelines for Officially Supported export Credit" was concluded, superseding the "Consensus". The EC members participated as a single unit. The Arrangement reiterated the conditions specified in the Consensus, and continued as a voluntary set of guidelines. Despite a great deal of pressure, principally from the United States, little progress could be made in reforming the Agreement till 1980.

The policy environment is a critical factor in export growth. Subsidised service provision is not itself a particularly effective means of compensating for that environment.[12] Market failure in developing countries has commonly been cited as the compelling reason for introducing preferential credit and insurance. However, these arguments have not been well articulated and there has not been any systematic analysis of the costs of alternative government responses. Industrial countries' programmes have histories of subsidy while developing country preferential programs have not been significant factors in stimulating exports.[13]

2.3 Changing Role of Export Credit Agencies

Export credit agencies play a key role in international trade and investment flows. The first export credit agencies were established in the 1920s but most have them have been set up only during the last three decades. Their traditional role is to support and encourage exports and

[11] ECGC was established as Export Risks Insurance Corporation (ERIC) in 1957. Its name was changed to Export Credit and Guarantee Corporation Limited in 1964 and then to Export Credit Guarantee Corporation of India in 1983.
[12] Keesing and Singer (1992).
[13] Fitzgerald and Terry (1989).

outward investments by insuring international trade and investment transactions, and in some cases by providing trade finance directly. The export credit agencies have different shapes and sizes and insure both political and commercial risks on exports. Until the late 1980s, most of these operated as government entities or on the account of their governments. There was little competition for business, as there tended to be one export agency in each country. Much of this changed during 1990s and is still changing. According to the WTO rules all export credit agencies are required to break even. Private sector insurers and re-insurers are increasingly willing to undertake this business. However, it is yet not clear how the private insurers would be able to break even in case they want to act as insurers of last resort while wholly depending on this business. Probably only official credit agencies can play the role of being the insurer of last resort.

Though there is conflict between the twin objectives of breaking even and being the insurer of last resort, it has been suggested that the conflict is not a real one because:[14]

? The period over which the business of official credit agencies is expected to break even is a very long one, longer than would be expected in the private market;

? Official export credit agencies do not pay taxes; and

? The shareholders of official export credit agencies (i.e. governments) do not expect to receive any dividends.

However, the notion that the official export-credit agencies can act as insurer of last resort while simultaneously adhering to the WTO mandate suggests one of two alternatives. First, either it underestimates ability of the private sector to put a market price on the assessed risks or it overestimates the quality of the risks being underwritten. Second, an insurer of last resort cannot acquire the ability, skill and experience, required to operate right at the margin of high-risk business. These issue would require much more discussion over the coming years.

2.4 Export Credit and WTO

Governments all over the world provide subsidies as a tool for realising their policies. Subsidies may take various forms such as grants, tax exemptions, low-interest financing, investments, and export credits. Six primary *purpose-based* categories subsidies include 1) export subsidies; 2) subsidies contingent upon the domestic over imported goods; 3) industrial promotion subsidies; 4) structural adjustment subsidies; regional development subsidies; and 6) research and development subsidies. Two primary *beneficiary-based* subsidies include a) "non-specific" subsidies, i.e. subsidies that are not limited to specific businesses or industries; and b) "specific" subsidies.

Even though each government may consider its goals for providing subsidies to be legitimate, certain types of subsidies may provide excessive protection to domestic industries and act as barriers to trade. WTO agreements, therefore, attempt to put to discipline unfair use of subsidies by the member governments. The basic principles of the legal framework for subsidies are provided in Articles VI and XVI of the GATT 1994. There is a separate Agreement on Subsidies and Countervailing Measures (SCM), under the WTO Agreement, addressing the implementation issues relating to subsidies in general.[15] Compared with the erstwhile GATT code of subsidies, SCM provides explicit clarity and strength to the issues relating to implementation and countervailing actions. [16]

The SCM Agreement provides a definition of subsidies in Article 1. Except as provided in the Agreement on Agriculture, subsidies are classified under classified into "prohibited" (Article 3), "actionable" (Article 5, 6 and 7) and "non-actionable" (Articles 8 and 9) subsidies. Prohibited subsidies are of two types a) based upon export performance, including those illustrated in Annex I of the SCM Agreement and b) based upon the use of domestic over imported goods.[17]

Actionable subsidies, in case these cause adverse effects, can be challenged either through multilateral dispute settlement mechanism or through unilateral countervailing action. Adverse effects to the interests of other members include a) injury to domestic industry of another member; b) nullification or impairment of benefits accruing directly or indirectly to other members under GATT 1994; and c) serious prejudice to the interests of another member.

Non-actionable subsidies are not "specific" to an enterprise or industry or group of enterprises or industries. These include assistance for a) certain types of basic research; b) development of disadvantaged regions; and c) adaptation of the existing facilities to new environmental requirements imposed by law and/or regulations resulting in greater financial burden on adapting firms.

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[14] Stephens (1999).
[15] See details under Annex 1A of WTO Agreement (Multilateral Agreements on Trade in Goods).
[16] There is separate Agreement on Agriculture under Annex 1A of WTO Agreement Multilateral Agreements on Trade in Goods, which includes provisions for reducing domestic and export subsidies for agricultural products.
[17] A member can neither grant nor maintain such subsidies.

The Special and Differential Treatment under the WTO is the result of its attention to the special needs and problems of developing country members.[18] Article 27 under part VIII of the SCM Agreement deals with provisions for the developing country Members recognising that subsidies may play an important role in their economic development. It states that the prohibition of subsidies under Article 3 shall not apply to the least-developed countries as defined by the United Nations, as well as, to 20 developing WTO Member countries (including India) whose GNP per capita was less than US$ 1,000 per annum (Table 2.1).[19] However, if a developing country member reaches export competitiveness in one or more products, export subsidies in such products shall be gradually phased out over a period of eight years. Export competitiveness in a product exists if a developing country Member's exports of that product have reached a share of 3.25 per cent in world exports of that product for two consecutive calendar years. Export competitiveness shall said to exist either a) on the notification by the developing country Member having reached export competitiveness, or b) on the basis of a computation undertaken by the Secretariat if at the request of any Member. In this paragraph, a product is defined as a "section heading" of the Harmonised System Nomenclature.

There has been some discussion in India about issues relating to WTO compliance of India's export incentives.[20] The need for a review of the SCM Agreement has been pointed out due to the existence of large scale subsidisation by the developed countries (Satpathy, 1999). Hajra (1999) points to various major concerns expressed by Trade Policy Review of India by WTO (1998) regarding the inconsistencies in India's trade policy regime. Ahuja (2001) provides a detailed discussion on WTO compliance of export incentives in India.

We would like to note that paragraph 128 of WTO (1998) is a brief discussion about India's export subsidies. It states that "India does not provide direct subsidies to exporters. Instead, as described below, India relies on a wide range of indirect subsidies, including duty and tax concessions, export finance, export insurance and guarantee, and export promotion and market assistance."

For the purposes of the current study we shall limit ourselves only to the two "prohibited" export subsidies, viz. a) lower than market rate of interest on export credit and b) subsidy through export credit insurance and guarantee. Commercial banks provide export financing below the market rates. The interest rates on export credit are now linked to the prime lending rates (PLR)

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[18] Special and differential treatment of the developing member countries under WTO gets reflected in GATT Article XVIII, GATT Part IV including the Enabling Clause, legal assistance, and also gets reflected in various WTO Agreements.
[19] Based on the most recent data from the World Bank (see Annex VII of the SCM Agreement).
[20] See Hajra (1999), Satpathy (1999) and Ahuja (2001).

of commercial banks. Commercial banks do not receive subsidies from the government to finance these loans. Commercial banks are required to extend a minimum of 12 per cent of their net credit as export credit. With regard to export finance and guarantees, the objective of the wholly government-owned Export Credit Guarantee Corporation of India Limited (ECGC) is to provide exporters a range of insurance cover against the risk of non-realisation of export proceeds due to political or/and commercial reasons. The ECGC also provides guarantees to financial institutions to facilitate the granting of credit facilities to exporters on liberal basis. The short-term insurance services as well as the credit guarantee business of ECGC have been found to be viable. It is in the medium- and long-term export credit and guarantee business that ECGC has to meet substantial claims leading to negative results.

The prohibited subsidies mentioned above are likely to be countervailed only if these cause adverse effects to interests of the other member countries.[21] A member may not impose a countervailing measure unless it determines that there are subsidised imports, injury to a domestic industry, and a causal link between the subsidised imports and the injury. There are detailed but transparent rules regarding the initiation and conduct of countervailing investigations, the imposition of preliminary and final measures, the use of undertakings, and the duration of measures. However, with respect to countervailing measures, developing country Members' exporters are entitled to more favourable treatment with respect to the termination of investigations where the level of subsidisation or volume of imports is small. It may take India at least a decade to reach per capita GNP level of $1000. In the meanwhile, serious studies should be undertaken to estimate as to which 4-digit HS heading exports are going to cross the 3.25 per cent barrier. None of the three studies mentioned above have done this. While Hajra (1999) has computed the export share in world trade of certain 3-digit SITC categories, Ahuja (2001) considers sections to be headings but does not compute any percentages. In fact, the text of paragraph 27.6 of the SCM Agreement appears to have lead to this confusion. While discussing export competitiveness of a `product' exported by a developing country Member, the last but one sentence reads as: "For the purpose of this paragraph, a product is defined as a section heading of the Harmonised System Nomenclature." The two words, viz. "section heading" put together have created this confusion. In fact, there are 99 "chapters" classified under 21 "sections" in the Harmonised Commodity Description and Coding System, popularly known as the HS system.[22] The 4-digit classification of a chapter refers to different "headings". For example, the 4-digit code 06.03 refers the third "heading" under chapter 6, i.e. *cut flowers and flower buds*; and 4-

[21] See Article 5 of the SCM Agreement for details.
[22] See World Customs Organisation for details (www.wcoomd.org).

digit code 62.14 refers to the fourteenth "heading" under chapter 62, i.e. *shawls, scarves and mufflers*. India and some other developing countries have submitted a discussion paper to the WTO (G/SCM/W/431) dated March 12, 2001 with regard to the possible change regarding Article 27.6 of the SCM Agreement. It asks for increasing the period of establishing export competitiveness for four-figure section headings from two to five years.

Chapter 3 - Survey Methodology and Sample Design: Banks and Exporters

3.1 Introduction

Keeping in view the objectives of this study, a cluster-oriented approach has been chosen to collect information from bankers and exporters. Thirty-two export products/ categories were identified for the study clustered across twenty-nine cities/towns. A chosen export product/category may be being produced in one or more cities/towns and a city/town may be having cluster(s) of one or more export products/categories. The lists of export products/categories along with corresponding clustered cities/towns are provided in Tables 3.1 and 3.2. A total of 57 export production clusters have thus been chosen for this study. It was decided that the Survey would include 300 bank branches 1680 exporters.

3.1.1 Methodology of Survey Research

Getting the requisite information from 300 bank branches and 1680 exporters from all over the country is a challenging task. Separate Questionnaires were designed for bankers' and exporters' responses, respectively. A schedule-structured personal interview approach was chosen to collect primary data. This is a less flexible approach of personal interviews since the number and wording of questions remain identical for all the respondents. However, its merit lies in the fact that the interviewer is not permitted to reword a question and hence introduce bias across various interviewers. Even the sequence in which the questions are asked is the same in every interview. The variations between responses can thus be fairly attributed to the actual differences between the respondents and not to variations in the interview. The schedule-structured interview is based on three crucial assumptions:[23]

? That the respondents have a sufficiently common vocabulary so that it is possible to formulate questions, which have the same meaning for each of them.

? That it is possible to phrase all questions in a form that is equally meaningful to each respondent.

? That the meaning and context of each question as well as the sequence of questions must be identical for each respondent.

Despite being a high-cost method when compared with mail questionnaire, the method of personal interviews is expected to result in high response rate and fuller information. Thus, the

[23] Frankfort-Nachmias and Nachmias (1996).

use of schedule-structured questionnaire-based personal interviews minimises the problem of interviewers' biases getting introduced in the responses.

The interviewers recruited in all four zones of the country, whether directly by NCAER or through its network institutions, were trained directly as well as supervised by the NCAER field staff.

3.1.2 Questionnaire Construction

Two separate questionnaires were prepared: one for bank branches and the other for exporters based on issues relating to simplification of procedures for hassle free delivery of export credit. The RBI had provided us with two sets of issues, one for the bankers and other for the exporters (Annex 1). Keeping in view the list of issues detailed out in Annex 1, an attempt was made to translate the objectives of this study into specific questions based on relevant *content, structure, format* and *sequence*.

Due to diversity of the information desired for this study, the *content* of the questions was factual at times and based on subjective experiences at others.[24] A factual question is designed to obtain objective information from the respondent (see, for example, Question 8 in the banker's questionnaire). On the other hand, a question based on subjective experience tries to elicit respondent's belief, attitude, feeling and opinion (see, for example, Question 37 in exporter's questionnaire).

With regard to the *structure* of questions, a mix of close-ended as well as open-ended questions has been used in the two questionnaires. A close-ended question offers the respondent to choose one of the options from the ones mentioned (see, for example, Question 14 in exporter's questionnaire). On the other hand, an open-ended question is left for the respondent to answer with his response being fully recorded (see, for example, Question 42 in banker's questionnaire).

Responses of the close-ended subjective-experience questions need to be put in an appropriate *format*. Such questions are based on some form of rating scale with semantic differential on which respondents' reactions are recorded by asking them to indicate a rating on a bipolar scale defined by contrasting adjectives at each end (see, for example, Question 32 of exporter's questionnaire).

Finally, it is important to put questions in an appropriate *sequence*. Two major types of sequences refer to the *funnel sequence* and *inverted funnel sequence*. A questionnaire designed in the funnel sequence has questions such that each successive question is related to the previous question and has a progressively narrower scope. The reverse is true in the inverted funnel sequence with narrower questions followed by progressively broader ones. The former approach has been used to design exporter's questionnaire since the major objective was to gauge their level of satisfaction with export credit delivery mechanism. The questions were sequenced such that the narrower ones followed broader ones, with finally asking exporters "Are you satisfied in an overall sense with your present banker?" (Question 42 in exporter's questionnaire). On the other hand, the banker's questionnaire begins with probing into a particular bank branch's adherence to the RBI guidelines and the sequence of questions is neither "narrowing" nor "broadening". The sequence is say, *cylindrical*, with almost equal emphasis on various questions for gauging the degree of *adherence* and *efficiency* with which the particular bank branch fulfils the *expected* objectives of export finance provision to its exporting clients.

3.2 Sample Selection: Bank Branches and Exporters

It is important to deal with three major issues while selecting a sample, viz. a) the definition of population; b) the sample design; and c) the size of the sample. These issues had to be resolved in both the questionnaires, i.e. for bankers' and for exporters'. Since the export products/categories and the cities were pre-defined, the populations of bank branches as well as exporters were each finite. The information on bank branches providing export finance in different cities was available from the RBI. However, it was difficult to get information on exporters in these cities. Several methods were used to obtain such information, viz. trade websites, export federations and export credit providing bank branches. None of the three methods turned out to be sufficient and hence a combination of all three methods has been used with bank provided addresses being the maximum.

3.2.1 Sample Selection for Bank Branches

The commercial banks in India are divided among four major groups:

Group 1: State Bank of India and its associate Banks

Group 2: Nationalised Banks

Group 3: Private (including co-operative) Banks

Group 4: Foreign Banks

[24] Examples can be found both in bank as well as exporters questionnaires. See Annex 2, which provides both the questionnaires.

Bank branches may further be divided into different categories on the basis of the services they offer. These are:

Category "A": Branches with ESCROW/VOSTRO/NOSTRO accounts of foreign banks and parties.

Category "B": Other branches

A sample of the bank branches representing all groups and categories was required for the study. The selection was to be based on information of bank branches specialising in various products/ categories and the quantum of their export credit. The bank branches were then to be selected at random from among the responding branches as well as from the information sent to NCAER by RBI.

A total of 1816 bank branches (183 "A" and 1633 "B" category) were identified by the RBI in the identified cities/ towns. The RBI then sent a Circular (dated August 6, 2001) to the Chairmen/ Chief Executives of these bank branches. All these bank branches were instructed to send relevant information on their exporter clients, product coverage and the export credit outstanding, directly to the NCAER research staff. However, the response was poor with only 63 "A" category and 583 "B" category branches responding to the circular.

Keeping in view the possibility of non-responses during the survey, it was decided to select a sample of 370 bank branches. The number of bank branches in each city was selected on proportional basis, i.e. the higher the number of bank branches in a city/ town the higher the number of branches to be selected in the sample. Table 3.3 presents distribution of selected bank branches across 28 cities.

The selection of "A" category bank branches was based on a pre-determined criterion such that all the branches were included in the sample if a city/ town had five or less number of "A" category bank branches. Five branches were included in the sample if the number of such bank branches was between 6 and 10. Only 50 per cent of the branches were to be included in the sample in case the number of "A" category bank branches turned out to be more than 10 in a city.

However, certain exceptions were made for selecting "A" category branches in big cities of Kolkata, and Mumbai. In Kolkata, 12 out of 19 "A" category bank branches were selected in the sample since Kolkata represented five export products/ categories (engineering, jute, leather, tea, and textiles). In the city of Mumbai, 35 out of 85 "A" category bank branches were selected. Mumbai represents four export products/ categories but if more than 35 "A" category branches were to be selected, the representation of "B" category branches would have been much smaller than it now is in the sample. The selected "A" category branches in a city/ town were then divided among four major groups in proportion to their actual distribution. Table 3.4 provides distribution of "A" category bank branches across four bank groups in 28 cities.

Once the "A" category sample was selected, city–wise sample for "B" category bank branches was arrived at by subtracting total sample of "A" category bank branches from the desired total sample for the city. However, this led to a problem of low sample of "B" category bank branches in the cities of Bhadoi, Kanpur and Guntur. Eight additional "B" category bank branches were selected in each of these cities. This resulted in a sample of 282 "B" category bank branches. The branches were then consigned to the four groups of banks following a methodology similar to that followed as in the case of "A" category banks. Table 3.5 provides distribution of "B" category bank branches across four bank groups for 28 cities.

Our sample of 383 branches includes 77 different banks of the country. All the nine banks of Group 1 (SBI and its associate banks) as well as all the 19 banks of Group 2 (nationalised banks) are included in the sample. The sample also includes 28 banks from Group 3 and 21 different banks from Group 4. The names of banks belonging to Groups 3 and 4 are given in Table 3.6.

3.2.2 Sample Selection for Exporters

As mentioned earlier, this study aimed at conducting primary survey of about 1680 exporters of 32 products/ categories drawn from 29 cities from among all the four major zones (NEWS) of India (Tables 3.1 and 3.2). The total clusters of export products were more than 32 since a particular product/ category may be produced in more than one city/ town. The total clusters surveyed turned out to be 57.

The exporters were selected with addresses being taken from various sources, viz. banks, export federations and FIEO. However, the number of exporters in a particular product/ category was based on its export in total export turnover of the country. The weights have been computed as the triennium average for the triennium 1997-98, 1998-99 and 1999-2000 (Table 3.7). The data on exports have been taken from the Directorate General of Commercial Intelligence and Statistics (DGCI&S).

Some of the products/ categories have insignificant weight, say less than 2 per cent, in total exports or else their export values are not separately available. However, to give appropriate credit to exporters of these categories, a simple rule of thumb was used. *Purposively*, it was decided to cover at least 30 exporters of each of these categories (Table 3.7). However, there were some exceptions. The number of exporters to be surveyed for bicycles and iron ore is each less than 30 due to less number of actual exporters. On the contrary, we would have to take a very large number of exporters of diamonds, gems and jewellery since their weight in exports is above 21 per cent. The number turns out to be above 350 if we take 21 per cent of 1680 exporters to be analysed. We have *purposively* selected only 60 exporters of diamonds, gems and jewellery to be analysed since these exporters are likely to be too few and too large. In the case of textiles and readymade garments the weights are above 14 per cent for each of the two categories. Though the sample selected in each of these two categories turns out to be about 240, we have *purposively* desired 375 exporters in each of these product categories. This has been done since the exporters in these categories are too many but not too large. In the case of diamonds, gems and jewellery, 20 exporters were to be selected from each of the three cities being analysed. The numbers of textile-exporters were desired at 75 from each of the five cities being analysed and for readymade garments at 125 from each of the three cities being surveyed for this product category.

This may, however, be observed from Table 3.7 that export units, which could actually be surveyed, differ from the original targets as well as the desired sample numbers. The survey team ended up with an over sample of 2090 exporters, compared with the original target of 1680, to keep the eventuality of non-responses in view. This has been due partly to non-availability of a meaningful database of actual exporters and partly to hesitation of the bank branches to provide information about their exporter clients. According to our earlier plan, we desired to get about two-thirds of exporters' addresses from their banks only one-third from other sources. The story has turned out to be just the reverse. Banks have provided only one-third of the addresses of the 1762 exporters actually surveyed.[25] The total number of exporters surveyed at 1762 has turned out to be about 5 per cent more than the original target of 1680.

The exporters' sample from each city was expected to be a mix of small, lower-medium, medium and large exporters in the ratio of 2:2:1:1 (see Box 3.1). This ratio was indicative and could not be followed uniformly. However, the emphasis was to provide greater weight to relatively small exporters.

[25] The possibility of biased responses by the bank provided list of exporters has thus been reduced.

Box 3.1: Definition of Exporters in terms of Size Classes	
Definition	*Export Turnover*
Small Exporter	Rs. 50 lakhs and below
Lower Medium Exporter	Above 50 lakh but below 5 crore
Medium Exporter	Above 5 crore but below 15 crore
Large Exporter	Above 15 crore

Certain other changes from the original design were also made in some of the cities due to the paucity of exporters' numbers for whom the information could be made available. For example, we had to shift our focus from Aluminium exporters to marine/ seafood in Bhubaneswar. The emphasis had to be shifted from exporters of light-engineering goods to exporters of tobacco in Guntur.

3.3 Questionnaire Construction

3.3.1 The Questionnaire for Banks

The Questionnaire for the banks has been divided into seven parts covering different aspects of export finance. These are:

A) Branch Information,

B) Sanctioning of Credit Limits,

C) Pre Shipment Credit,

D) Post Shipment Credit,

E) Utilisation of Delegated Powers,

F) Exporters Grievances, and

G) Availability of Trained Staff.

Branch information deals with the basic characteristics of the branch. The main features of this part include factors considered for sanctioning loan to new exporters; branch awareness about ECGC classification of countries; catering to the needs of small exporters; export credit turnover; the number of exporter clients; the maximum amount sanctioned to a single exporter; and export credit target of the branch.

Sanctioning of credit limits deals with documents required for sanctioning of limit, method of assessing working capital requirement, sanctioning power of the branch, margins stipulated, time taken for sanctioning of limits, processing fee for sanctioning credit limits. It also deals with the method followed by the branch for sanctioning export finance higher than their sanctioning power along with procedural aspects for ad-hoc finance, consortium finance and multiple banking. Finally, it looks into the frequency of renewal of credit limits, concessions to exporters with good track record and interchange of pre and post shipment credit limits.

Pre–shipment credit part of the questionnaire deals with documentary requirements for releasing pre–shipment credit; basis for allowing running account facilities; check on end utilisation of export credit and maximum time period allowed for export credit; information on the prerequisites for availing export credit in foreign currency; and the minimum amount and interest rate charged on the loan in foreign currency.

Bill financing part deals with the formalities such as documents required; consultancy firm used for status report of buyer; time taken for despatching documents; credit recovery rates; and problems related to defaulters and ECGC.

Utilisation of delegated powers relates to gauging the bank's ability for actually using the powers delegated to it or to the head office by the RBI.

Exporters' grievances part makes an attempt to register issues relating to the approach of the bank branch towards resolving problems faced by the exporters with regard to export finance and providing help and guidance to their exporter clients.

Finally, the *availability of trained staff* has been gauged through inspecting the quality of staff deputed in the FOREX counter of the bank branch being covered.

3.3.2 The questionnaire for exporters

The questionnaire for exporters has been divided into seven parts on the bases of the information required from them with regard to their level of satisfaction with the existing facilities of the short-term bank finance being made available to them for their working capital requirements. These include:

A) Introduction,

B) Sources of finance,

C) Sanction of credit limits,

D) Post-sanction disbursal and services,

E) Utilisation of delegated powers by the banks,

F) Impressions about the bank services, and

G) Suggestions.

Introduction of the exporter attempts to elicit some general information about the exporter including turnover, products exported; whether from private or public sector; and whether manufacturer exporter or merchant exporter, etc.

Sources of finance provide information on the type of finance facilities used by the exporter being surveyed during 2000-01. It also seeks to find out the type of banks used by the exporter.

Sanctioning of credit limits refers to one of the most important aspects of this study. It deals with issues relating to the availability of the pre and post shipment finance to the exporters by the banking system. Questions in this section deal with procedural hassle, method of assessing working capital requirement, exporters' satisfaction with terms and costs of the sanctioned credit, and the role of ECGC in the sanction process.

Post-sanction disbursal and services reflect the operative part of the sanctioned finance and the timeliness of credit provision by banks to exporters for pre and post shipment credit. Questions in this section seek to elicit cost information on interest and other charges levied by the banks. Questions also relate to adequacy and timeliness of ECGC claims.

Utilisation of delegated powers by the bank branch addresses the degree of pro-active approach followed by a bank branch with regard to helping exporters through optimum use of powers delegated to it by the RBI stipulations and the head-office. Exporters are also requested to rate the degree of permissible flexibility in banks' working.

Impressions about the bank services are obtained from exporters through asking questions like the quality of the bank staff dealing with export credit, helpful attitude of the banks towards resolving exporters' credit related problems, and the degree of modernisation in the work processing by the banks. Exporters' views on their level of satisfaction with adequacy and efficiency of export credit delivery system are also recorded.

Suggestions made by exporters for improvement in the export credit delivery system are sought under this section.

3.4 Survey: Banks and Exporters

3.4.1 Banks

The field staff while conducting survey for the banks encountered two types of problems. *Firstly*, there was a problem of non-response due to indifferent attitude of some of the bank staff. *Secondly*, some of the branches mentioned as "A" category either turned out to be "B" category or else they were not disbursing export credit directly to the exporters. Instead, they were disbursing export credit to the customers of their other branches, which were not authorised as foreign exchange dealers. Consequently, we were able to interview only 59 "A" category bank branches instead of the desired 75. Table 3.8 provides distribution of "A" category bank branches interviewed for the study. These include 5 bank branches in Group-1, 34 in Group-2, 6 in Group-3, and 14 in Group-4.

Among the "B" category bank branches, 268 bank branches were interviewed, which were more than the desired 225 (Table 3.9). These include 61 bank branches in Group-1, 136 in Group-2, 61 in Group-3 and 10 in Group-4.

Thus, the total bank branches interviewed, both in "A" as well as "B" categories, were 327, i.e. 9 per cent more than the desired 300.

3.4.2 Exporters

The total number of exporters with valid responses turned out to be 1762. The city-wise coverage of the surveyed exporters is shown in Table 3.10.

It may be observed that Mumbai has the highest coverage of exporters (13.4 per cent) and is followed by Kolkata (9.2 per cent), Chennai (8.3 per cent), Jaipur (7.8 per cent) and New Delhi (6.9 per cent). The least coverage is for the city of Mangalore (0.1 per cent) mainly because of non-availability of the exporters in the specified product category, i.e. marine products. In order to fulfil the sample coverage for this product in the region, the NCAER field-staff has increased the number of exporters surveyed in the same product category in Kochi (including Alleppey).

The product-coverage of the exporters is shown in Table 3.11. The sample coverage is the highest for readymade garments (21.2 per cent) followed by textiles (14.7 per cent), engineering products (8.5 per cent), leather products (6.1 per cent), diamonds, gems and jewellery (5.8 per cent), seafood (4.0 per cent), handicrafts (4.0 per cent) and hosiery products (3.0 per cent). Because of the existence of a few but large firms in the export business, the sample coverage for aluminium, and cycles, etc. have remained low.

The sample coverage in terms of size classes is shown in Table 3.12. It may be observed that the proportion of small exporters is the highest in the western region, followed by the southern, northern and eastern regions. The maximum exporters in each of the four regions lie in the lower-medium category. The target proportion for the four different size categories was hypothesised as 2 : 2 : 1 : 1. The actual distribution has turned out to be in the ratios 0.8 : 2.8 : 1.3 : 1.1. This implies that we have been able to achieve about 90 per cent success in including small and lower-medium exporters in this survey.

The city-wise distribution of exporters in size classes is given in Table 3.13. It may be observed that the city of Mysore represents the highest proportion of small sized exporting units (50 per cent), followed by Pune (48 per cent), Jalandhar (38 per cent) and Coimbatore (28 per cent). It may also be observed that in terms of percentage, the coverage of the lower medium sized exporting units for all the cities in aggregate is the highest.

The distribution of the exporting units in size classes for different product categories are given in the following Table 3.14.

Table 3.1

Selected Cities and Products for the Survey

Region/City	Products/Commodities
Northern Region	
Agra	Leather Products
Amritsar	Rice
Bhadoi	Carpets
Faridabad	Auto Components
Gurgaon	Auto Components, Electronics, and Readymade Garments
Jalandhar	Sports Goods
Kanpur	Leather Products
Ludhiana	Engineering Products, Cycles, and Hosiery
Moradabad	Brassware
New Delhi	Readymade Garments
Noida	Electronics
Panipat	Handlooms
Eastern Region	
Bhubaneshwar	Aluminium, and Iron Ore
Kolkata	Engineering Products, Jute Products, Leather Products, Tea, and Textiles
Western Region	
Ahmedabad	Dyes & Chemicals, Drugs & Pharmaceuticals, and Textiles
Indore	Soya Products
Jaipur	Diamond, Gems & Jewellery, Granite, and Handicrafts
Mumbai	Diamond, Gems & Jewellery, Engineering Products, Readymade Garments, and Textiles
Pune	Auto Components, Basic Chemicals, and Engineering Products
Surat	Diamond, Gems & Jewellery, and Textiles
Southern Region	
Bangalore	Coffee, Engineering Products, and Readymade Garments
Chennai	Handloom, Leather Products, and Textiles
Coimbatore	Textiles Machinery
Guntur	Engineering Products, and Tobacco
Hyderabad	Basic Chemicals, and Drugs & Pharmaceuticals
Kochi	Coir Products, Seafood, and Spices
Mangalore	Seafood
Mysore	Incense Sticks, and Silk
Tripur	Hosiery

Table 3.2

Selected Products in Different Cities for the Survey

Products	Cities
Aluminium	Bhubaneshwar
Auto Components	Faridabad, Gurgaon and Pune
Basic Chemicals	Pune and Hyderabad
Brassware	Moradabad
Carpets	Bhadoi
Coffee	Bangalore
Coir Products	Kochi
Cycles	Ludhiana
Diamonds, Gems and Jewellery	Jaipur, Mumbai and Surat
Drugs and Pharmaceuticals	Ahmedabad and Hyderabad
Dyes and Chemicals	Ahmedabad
Electronics	Gurgaon, Noida
Engineering Products	Bangalore, Guntur, Kolkata, Ludhiana, Mumbai and Pune
Granite/Stone	Jaipur
Handicrafts	Jaipur
Handlooms	Chennai and Panipat
Hosiery	Ludhiana and Tripur
Incense Sticks (Agarbattis)	Mysore
Iron Ore	Bhubaneshwar
Jute Products	Kolkata
Leather Products	Agra, Chennai, Kanpur and Kolkata
Readymade Garments	Bangalore, Gurgaon, Mumbai and New Delhi
Rice	Amritsar
Seafood	Kochi and Mangalore
Silk	Mysore
Soya Products	Indore
Spices	Kochi
Sports Goods	Jalandhar
Tea	Kolkata
Textiles	Ahmedabad, Chennai, Kolkata, Mumbai and Surat
Textiles Machinery	Coimbatore
Tobacco	Guntur

Table 3.7

Export of Major Products (Rs. Crores)

Product	Export (1997-98 to 199-2000)	Product Share	Sample from Weights	Desired Sample	Surveyed units
Aluminium	2655.32	0.73	12	30	5
Auto Components	10320.59	2.84	48	46	27
Basic Chemicals	13513.53	3.72	63	58	13
Brassware	0.00	0.00	0	30	24
Carpets	7644.13	2.11	35	33	25
Coffee	2679.62	0.74	12	30	20
Coir Products	767.97	0.21	4	30	22
Cycles	1133.30	0.31	5	5	8
Diamonds, Gems and Jewellery	77513.36	21.35	359	60	102
Drugs and Pharmaceuticals	13201.00	3.64	61	38	46
Dyes and Chemicals	5966.10	1.64	28	30	50
Electronics	9652.85	2.66	45	30	26
Engg. Products	25338.43	6.98	117	180	149
Granite/stone	4140.78	1.14	19	30	28
Handicrafts	15335.00	4.22	71	66	70
Handlooms	5754.32	1.59	27	60	53
Hosiery	0.00	0.00	0	60	52
Incense sticks(Agarbattis)	0.00	0.00	0	30	16
Iron ore	4545.32	1.25	21	19	11
Jute Products	1457.90	0.40	7	30	21
Leather Products	13728.59	3.78	64	120	107
Readymade Garments	53751.48	14.81	249	375	374
Rice	12777.67	3.52	59	55	18
Seafood	13907.20	3.83	64	60	71
Silk	2294.72	0.63	11	30	16
Soya Products	23.16	0.01	0	30	28
Spices	3704.59	1.02	17	30	24
Sports Goods	672.86	0.19	3	30	16
Tea	5644.25	1.55	26	30	21
Textile Machinery	0.00	0.00	0	30	21
Textiles	52081.08	14.35	241	375	259
Tobacco	2840.93	0.78	13	30	39
Total	363046.05	100	1680	2090	1762

Table 3.10

City-wise sample coverage of the exporters

City Name	Total	Percentage
Agra	24	1.4
Ahmedabad	109	6.2
Amritsar	13	0.7
Banglore	118	6.7
Bhadoi	24	1.4
Bhubneshwar	40	2.3
Chenni	147	8.3
Coimbatore	43	2.4
Faridabad	14	0.8
Guntur	36	2.0
Gurgaon	20	1.1
Hyderabad	65	3.7
Indore	25	1.4
Jaipur	137	7.8
Jalandhar	16	0.9
Kanpur	24	1.4
Kochi	86	4.9
Kolkata	162	9.2
Ludhiana	54	3.1
Manglore	2	0.1
Muradabad	24	1.4
Mumbai	236	13.4
Mysore	4	0.2
New Delhi	121	6.9
Noida	44	2.5
Panipat	28	1.6
Pune	65	3.7
Surat	56	3.2
Tripur	25	1.4
Total	1762	100.0

Table 3.11

Product coverage of the exporter's survey

Product	No. of exporters	Percentage
Aluminium	5	0.28
Auto Components	27	1.53
Basic Chemicals	13	0.74
Brassware	24	1.36
Carpets	25	1.42
Coffee	20	1.14
Coir Product	22	1.25
Cycles	8	0.45
Diamonds G&J	102	5.79
Drugs and Pharmacy	46	2.61
Dyes and Chemicals	50	2.84
Electronics	26	1.48
Engg Products	149	8.46
Granite	28	1.59
Handicrafts	70	3.97
Handlooms	53	3.01
Hosiery	52	2.95
Agarbattis	16	0.91
Iron Ore	11	0.62
Jute Products	21	1.19
Leather Products	107	6.07
RMG	374	21.23
Rice	18	1.02
Sea Food	71	4.03
Silk	16	0.91
Soya Product	28	1.59
Spices	24	1.36
Sports Goods	16	0.91
Tea	21	1.19
Textiles	259	14.70

Table 3.12

Sample coverage of the exporting units in terms of size classes

Region	Small	Lower Medium	Medium	Large	Total
North	7.9	47.3	24.6	20.2	23.0
East	10.4	37.6	29.2	22.8	11.5
West	17.8	49.4	19.1	13.7	35.6
South	13.1	43.9	20.7	22.2	29.9
Overall	**13.3**	**45.9**	**22.0**	**18.8**	**100.0**

Table 3.13

Citiwise Percentage Distribution of Exporting Units in Size Classes

Cities	Small	Lower Medium	Medium	Large	Total
Agra	8.3	41.7	37.5	12.5	**1.4**
Ahmedabad	9.2	52.3	24.8	13.8	**6.2**
Amritsar	0.0	69.2	7.7	23.1	**0.7**
Bangalore	11.9	40.7	21.2	26.3	**6.7**
Bhadoi	25.0	41.7	20.8	12.5	**1.4**
Bhubneshwar	12.5	47.5	25.0	15.0	**2.3**
Chennai	13.6	45.6	21.1	19.7	**8.3**
Coimbatore	27.9	39.5	16.3	16.3	**2.4**
Faridabad	7.1	35.7	21.4	35.7	**0.8**
Guntur	0.0	33.3	30.6	36.1	**2.0**
Gurgaon	0.0	50.0	25.0	25.0	**1.1**
Hyderabad	10.8	50.8	15.4	23.1	**3.7**
Indore	0.0	52.0	32.0	16.0	**1.4**
Jaipur	21.9	54.0	19.7	4.4	**7.8**
Jalandhar	37.5	43.8	12.5	6.3	**0.9**
Kanpur	4.2	50.0	33.3	12.5	**1.4**
Kochi	11.6	47.7	18.6	22.1	**4.9**
Kolkata	9.9	35.2	30.2	24.7	**9.2**
Ludhiana	3.7	44.4	27.8	24.1	**3.1**
Manglore	0.0	0.0	0.0	100.0	**0.1**
Moradabad	0.0	75.0	16.7	8.3	**1.4**
Mumbai	15.3	45.3	19.1	20.3	**13.4**
Mysore	50.0	50.0	0.0	0.0	**0.2**
New Delhi	9.1	43.8	22.3	24.8	**6.9**
Noida	2.3	61.4	20.5	15.9	**2.5**
Panipat	7.1	25.0	42.9	25.0	**1.6**
Pune	47.7	30.8	9.2	12.3	**3.7**
Surat	8.9	69.6	12.5	8.9	**3.2**
Tirupur	16.0	44.0	36.0	4.0	**1.4**
Total	13.3	45.9	22.0	18.8	**100.0**

Table 3.14

Productwise Percentage distribution of exporting units in size classes

Products	Small	Lower Medium	Medium	Large	Total
Aluminium	0	20	0	80	**0.3**
Auto Components	11	56	15	18	**1.5**
Basic Chemicals	0	62	15	23	**0.7**
Brassware	0	75	17	8	**1.4**
Carpets	24	40	24	12	**1.4**
Coffee	10	45	15	30	**1.1**
Coir Product	23	50	5	23	**1.2**
Cycles	0	25	13	63	**0.5**
Diamonds G&J	13	52	14	22	**5.8**
Drugs and Pharmaceuticals	13	63	7	17	**2.6**
Dyes and Chemicals	18	48	16	18	**2.8**
Electronics	27	46	12	15	**1.5**
Engg Porducts	26	36	15	23	**8.5**
Granite	25	46	25	4	**1.6**
Handicrafts	21	54	21	3	**4.0**
Handlooms	15	38	30	17	**3.0**
Hoisery	15	44	33	8	**3.0**
Agarbattis	31	69	0	0	**0.9**
Iron Ore	0	45	27	27	**0.6**
Jute Products	19	19	38	24	**1.2**
Leather Products	11	45	29	15	**6.1**
RMG	10	48	23	20	**21.2**
Rice	0	67	11	22	**1.0**
Sea Food	8	39	28	24	**4.0**
Silk	13	38	19	31	**0.9**
Soya Product	0	54	32	14	**1.6**
Spices	8	50	21	21	**1.4**
Sports Goods	38	44	13	6	**0.9**
Tea	0	29	38	33	**1.2**
Textiles	9	46	27	18	**14.7**
Textile Machinery	38	33	10	19	**1.2**
Tobacco	0	31	33	36	**2.2**
Total	13	46	22	19	**100.0**

4.1 Introduction

The scheduled commercial bank responses have been analysed for 327 bank branches selected from 4 different types of banks spread over 28 different cities belonging to 4 major zones (NEWS) of India. The exporter responses have been analysed for 1762 exporters selected from 32 product categories spread over 29 cities belonging to 4 major zones of the country.[26] In all, 57 export-product clusters have been investigated in this all India based survey. Such diverse samples of bank branches and exporters are expected to yield meaningful and important results on the major objective of the present study, namely Indian exporters' satisfaction with the export credit delivery system of the scheduled commercial banks of the country.

Table 1.1 of Chapter 1 provides details about the interest rate ceilings on export credit of the scheduled commercial banks as laid out by the Reserve Bank of India with effect from September 26, 2001. The RBI also directs the banks to provide 12 per cent or more of their net bank credit towards export finance. As mentioned in Chapter 3, Annex 1 provides an outline of the RBI guidelines to banks as well as expectations of the exporters from the export credit delivery system currently in practice. Most of our analysis would thus be based on issues put forward in Annex 1.

The present chapter has been divided mainly into two parts. The *first* part deals with survey findings with regard to the export credit system as it is practised by India's scheduled commercial banks. The bank responses have been categorised according to bank group as well as zone. The tabulation of results is provided at the end of this chapter as Tables 4.B1 to 4.B81. We shall discuss in this part and comment upon bankers' adherence to RBI guidelines on export finance using the tables of results as well by creating an "index of adherence".

The *second* part of this chapter deals with exporters' satisfaction with export credit delivery system. Exporters have been categorised into nine major product categories as well as on the basis of their size based on their export turnover in 2000-01 (small, lower-medium, medium and large).[27] They have also been classified into categories depending on their association with the major credit-providing bank group (SBI, nationalised, private and foreign) and zone (NEWS) in which these operate. Observations on exporters' satisfaction with export

[26] Export of these 32 product categories accounts for about 84 per cent of India's export during the three-year period 1998-99, 1999-00 and 2000-01.

[27] "Small" refers to export turnover up to Rs. 50 lakh, "lower-medium" to above Rs. 50 lakh and up to Rs. 5 crore, "medium" to above Rs. 5 crore and up to Rs. 15 crore, and "large" refers to above Rs. 15 crore.

credit delivery system are provided in this part based on Table 4.E1 to 4.E94. Exporters' overall level of satisfaction as disclosed by them in Question 42 of the exporter's questionnaire has been analysed both through critical discussion as well as using simple econometrics. A separate "exporters' satisfaction index" is created through analysing some of the questions answered by them during the course of discussion with them based on questionnaire for them.

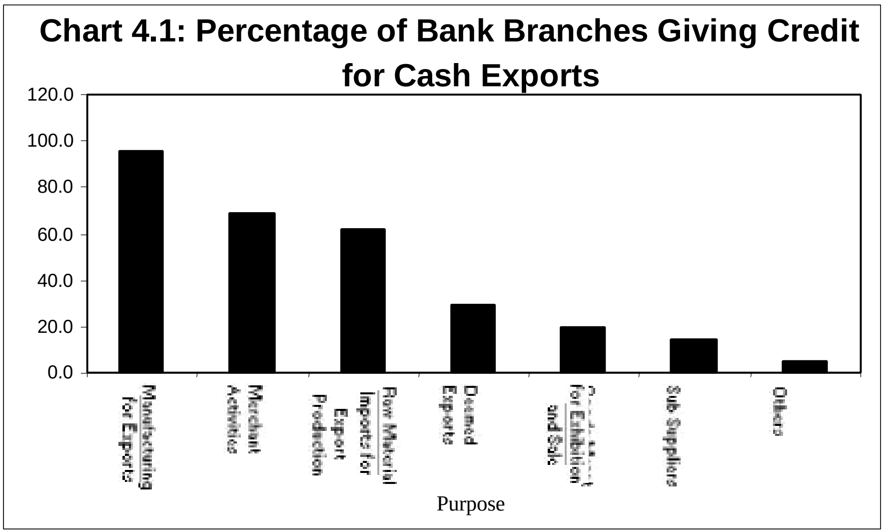
4.2 The Lenders' Perspective

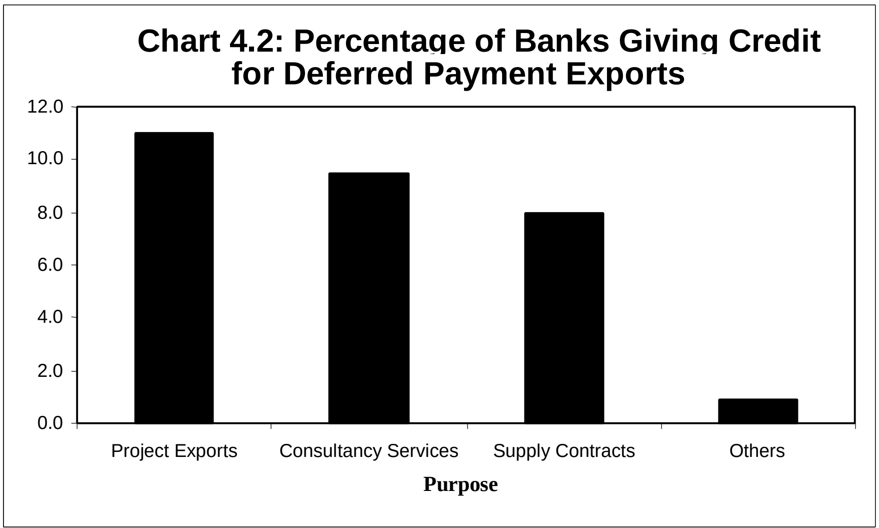
As already mentioned, 327 bank branches from all four groups of banks in four regions of India were surveyed for the study. Region-wise and bank-wise tabulations of the responses of the banks are provided at the end of the chapter (Table 4.B1 to Table 4.B81). Tables are divided into seven different sections corresponding to each section of the questionnaire. We provide major observations on banks' responses in the sub-section 4.2.1. We have also analysed "bankers' adherence to RBI guidelines" in the sub-section 4.2.2.

4.2.1 Analysis of Banks' Responses to the Bank Questionnaire

4.2.1.A Branch Information

1. "Manufacturing for exports" is the most common purpose for which export finance is provided by the scheduled commercial banks under survey with more than 95 per cent bank branches across the country having answered in affirmative (Table 4 B)1, Chart 5.1)[3]. The percentage is above 90 for all groups and zones. Two other common purposes turn out to be financing "import of raw-materials for export production" and "merchant exporters" with more than 60 per cent exporters having responded in affirmative for each of these two [4]. Financing for "deferred payment exports" is not common among banks except for some interest among foreign bank branches (4.B2, Chart 4.2). Around one-tenth of all the banks seem to be taking some interest while leaving the major share of business for EXIM Bank.





2. Around 95 per cent banks give credit to new exporters. More than 90 per cent of the bank branches in all zones and groups provide such credit except foreign-banks (4.B3). Only 84 per cent of the responding foreign bank branches provide export credit to new exporters.

3. The major criteria that most of the banks keep in mind while sanctioning credit limits include exporter's financial position, potential, experience, and credit history (4.B4). Despite RBI's discouragement, more than 84 per cent of the bank branches keep their eyes on collateral security with north zone, and nationalised and private group bank branches insisting more on it relative to others.

4. Banks do not seem to be showing much interest in providing finance for purchase of capital goods required for export promotion or promoting research and development (R&D) activities for encouraging export production (4.B5 and 4.B6). About one-third bank branches fund these activities with those in south zone and nationalised group doing somewhat better in relative terms. Only one-fifth bank branches provide such credit at concessional rates of

interest with relatively better performance by branches in north zone, and SBI and nationalised bank groups (4.B7).

5. About 85 per cent of bank branches are aware of ECGC risk classification of destination country (4.B8). Banks have their own criteria for avoiding credit to exporters with buyers in different risk-classified countries. Foreign banks are liberal about granting credit for export to countries with relatively high-risk classification (4.B9).

6. Around three-fourths bank branches cater to the needs of small exporters, i.e. with export turnover less than Rs. 50 lakhs. Bank branches in east zone and foreign group categories are relatively more conservative than others (4.B10).

7. A majority of bank branches have not responded to the question on amount of pre- and post-shipment credit disbursed by these during 2000-01 (4.B11 and 4.B12, Chart 4.3 & 4.4). However, they were forthcoming in providing the crucial information that 39 per cent of them had export-credit to total-credit ratio of less than 20 per cent with the other extreme being 15 per cent branches maintaining this ratio between 80 to 100 per cent (4.B13, Chart 4.5).

8. While only 17 per cent bank branches provide a single-party loan of less than Rs. one crore, twice this number (34 per cent) report this figure at Rs. 10 crore (4.B14).

9. More than half the bank branches (56 per cent) have provided pre-shipment export finance to less than 10 exporters each with only 10 per cent having provided the same to more than 30 exporters (4.B15). Figures for post-shipment finance are nearly the same, 53 and 14 per cent, respectively (4.B16).

10. While about half the bank branches had no fixed target of achieving export credit for the year 2000-01, nearly one-third branches have reported that they had over-achieved their “targets” (4.B17).

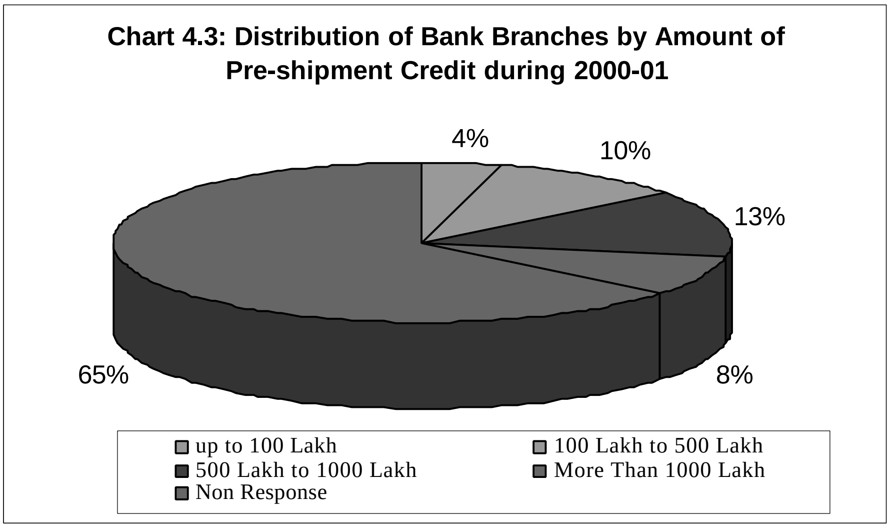


Chart 4.3: Distribution of Bank Branches by Amount of Pre-shipment Credit during 2000-01
4%
10%
13%
65%
8%
up to 100 Lakh
100 Lakh to 500 Lakh
500 Lakh to 1000 Lakh
More Than 1000 Lakh
Non Response

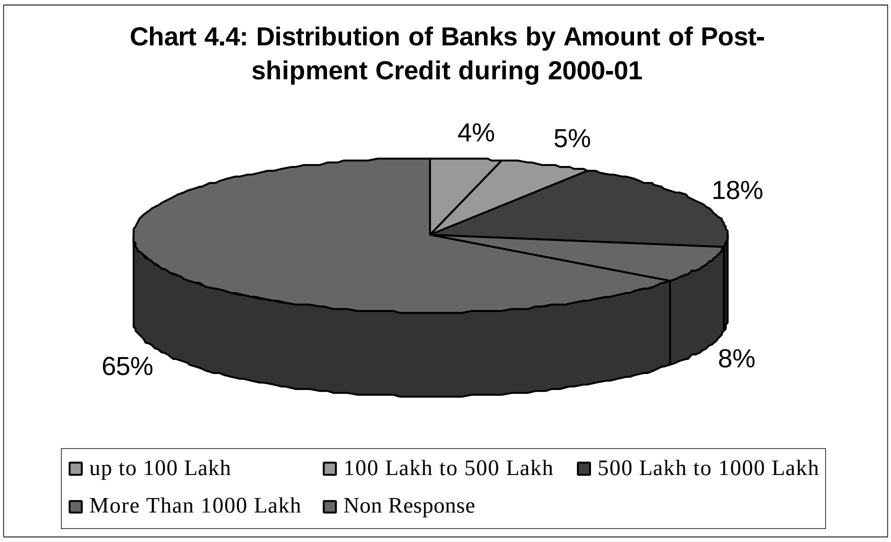


Chart 4.4: Distribution of Banks by Amount of Post-shipment Credit during 2000-01
4%
5%
18%
65%
8%
up to 100 Lakh
100 Lakh to 500 Lakh
500 Lakh to 1000 Lakh
More Than 1000 Lakh
Non Response

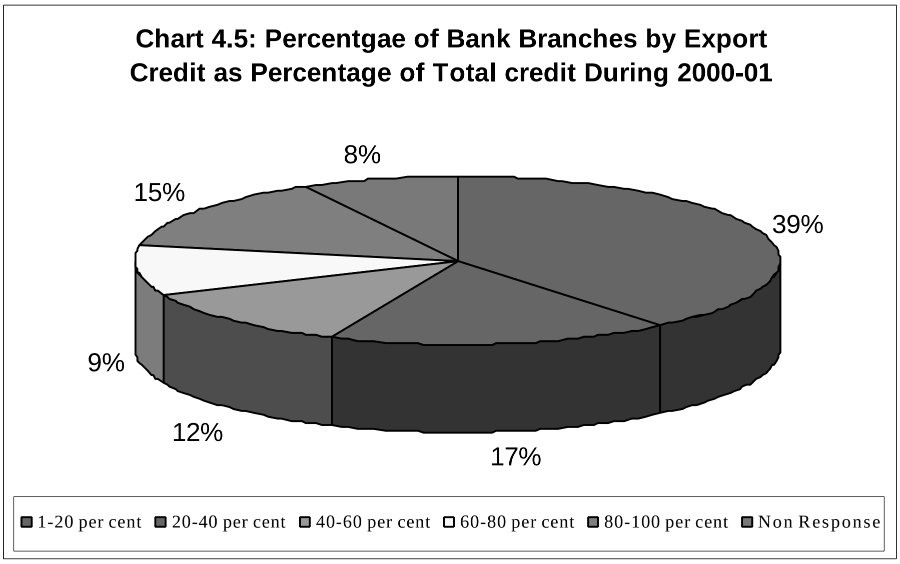


Chart 4.5: Percentgae of Bank Branches by Export Credit as Percentage of Total credit During 2000-01
8%
15%
39%
9%
12%
17%
1-20 per cent
20-40 per cent
40-60 per cent
60-80 per cent
80-100 per cent
Non Response

4.2.1.B Sanctioning of Credit Limits

1. The two most important documents required by the banks before they sanction credit limits to banks' exporter clients are a) past performance including audited balance sheets, and b) letter of credit (LC) or confirmed order (4.B18). The two most commonly used methods for assessing working capital requirements of banks' exporter clients are a) projected balance sheet method, and b) turnover method (4.B19).

2. About three-fifths of the responding bank branches from all over the country have branch level sanctioning power up to Rs. 5 crore and only one-fifth have it above Rs. 10 crore. Foreign bank branches have higher sanctioning power relative to others (4.B20). As a result, requests for credit limits above the branch-level powers are less common in foreign bank branches as compared with others bank branches (4.B21).

3. Banks may be well advised to expedite the process of sanctioning credit limits for requests beyond the branch's power. Less than two-fifths of the surveyed bank branches send such requests simultaneously to the regional office as well as to the appropriate sanctioning authority. Private bank branches (Group 3) are relatively more efficient than others with above 50 per cent branches undertaking both these steps simultaneously (4.B22). However, five-sixths of the bank branches at all-India level attest that the method of sanctioning additional ad-hoc finance is simpler than the original with private bank branches being relatively most efficient while the SBI branches the least so (4.B23).

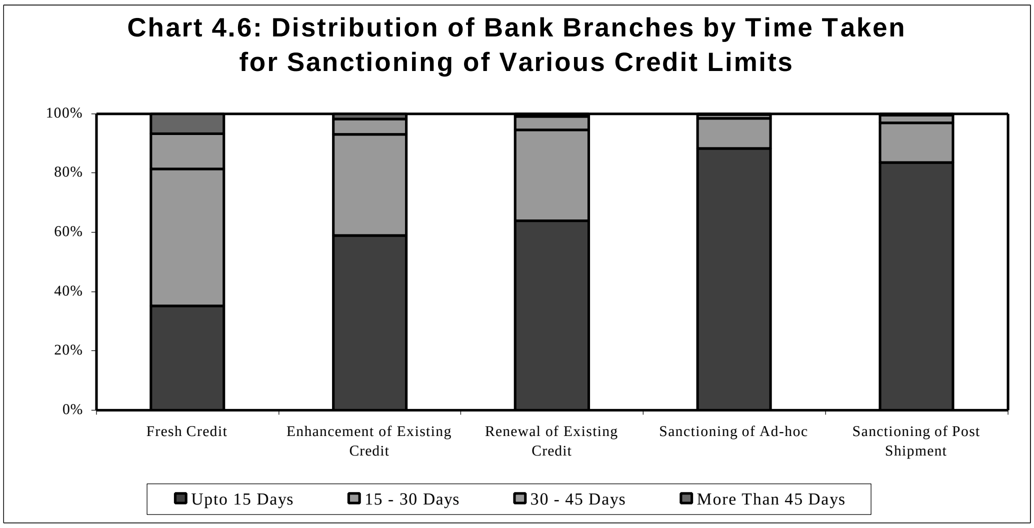
4. About three-fifths of the bank branches prefer to undertake a "self-assessment" rather than accept the assessment by the "lead bank" in the case of consortium finance. Only one-fourth of the surveyed bank branches accepts lead bank's assessment. The insistence on self-assessment is visibly high in foreign and private banks and relatively low in SBI and nationalised banks (4.B24). Less than half the surveyed bank branches agree to "multiple banking" with SBI and nationalised bank branches being much less eager to grant such permission and foreign banks readily accepting such an agreement (4.B25). The most commonly accepted security covers under multiple banking include "pari-passu on assets" and "specific collateral security" (4.B26).

5. The frequency of renewal of credit limits by a majority of the surveyed bank branches is once a year with more than 96 per cent bank branches under all groups attesting to this statement

(4.B27). There is a near unanimous view that the speedy credit sanctioning is based on the track record of the exporter-clients (4.B28).

6. The years of sluggish export growth impact negatively upon liberal sanctioning of export credit. About half the surveyed bank branches have no provision for liberal sanctioning while less than half continue with liberal sanctioning procedures with about 4 per cent not having responded (4.B29). While SBI and nationalised banks continue to remain relatively liberal, only one-fourth of the foreign bank branches maintain a bold face with two-thirds shirking away from liberal sanctioning.
7. More than three-fourths of the surveyed bank branches agree to interchange between pre- and post-shipment credit limits (4.B30). Such acceptance is relatively high in the case of foreign banks and low in the case of private banks.
8. Banks do not vary their interest rates for providing export credit across exports of different goods (4.B31).
9. The pre-shipment credit margins kept by the bank branches exhibit a bi-modal frequency distribution. While three-fifths of the bank branches specify pre-shipment credit margin between 21-25 per cent, one-fourth put margins between 1-10 per cent only (4.B32). A majority of foreign bank-branches specify relatively low pre-shipment credit margins between 1-10 per cent and one-fifth of them specify it in each of the two margin ranges of 11-20 and 21-25 per cent.
10. In the case of post-shipment credit, a majority of the bank branches (more than three-fifths) do not specify any margin (4.B33). Margins of 6-10 per cent are specified by 23 per cent of the bank branches, of 11-15 per cent by 3 per cent of the bank branches and above 15 per cent by 12 per cent of the bank branches. Interestingly, bank branches in the east zone of the country specify the lowest margins on post-shipment export credit.
11. More than 90 per cent of all bank branches adhere to the RBI's guideline on sanctioning fresh credit limit within 45 days with the exception of about one-seventh of the SBI branches reporting time taken above 45 days (4.B34). About 5 per cent each of nationalised and private bank branches have also declared themselves as defaulters of their guidelines. In the case of sanctioning of enhanced credit limit, more than 98 per cent of the surveyed bank branches adhere to the RBI guideline of 45 day-limit (4.B35). Renewal of the existing credit limit is done within 30 days as specified by the RBI except by about 5 per cent defaulters (4.B36). In the case of grant of ad-hoc credit limits, 88 per cent of the bank branches adhere to the RBI

guideline of 15-day limit with foreign banks being most efficient and SBI branches least so (4.B37). Post-shipment credit limit is invariably sanctioned within 45-day limit by all the bank branches (4.B38, Chart 4.6).



12. The processing fee charged by a majority of bank branches (82 per cent) for fund based credit varies between 0.06 to 0.30 per cent with only about 14 per cent of the bank branches charging above 0.30 per cent. The modal all-India value lies between 0.06 and 0.10 per cent with 31 per cent of all bank branches charging this rate. Interestingly, a majority of foreign bank branches (79 per cent) charge relatively low fee between 0.06 to 0.10 per cent while a majority of SBI branches (68 per cent) charge relatively high fee of 0.21 to 0.30 per cent. The modal value for nationalised banks lies between 0.11 to 0.20 per cent with 41 per cent bank branches charging this rate. Private banks display bimodal tendency with about 30 per cent bank branches charging a low rate between 0.06 to 0.10 per cent and 37 per cent branches charging a rate above 0.30 per cent (4.B39).

13. In the case of sanctioning non-fund based credit limits, the modal class lies between above zero and below 0.05 per cent rate with 32 per cent bank branches charging this rate. Other features are similar to the fund-based interest charges with four-fifths of the foreign bank branches charging a relatively low rate of interest above zero and below 0.05 per cent and 50 per cent of the SBI branches charging rate between 0.21 to 0.30 per cent. Private banks turn out to be by far the highest interest charging group (4.B40).

4.2.1.C Pre-Shipment Credit (Packing Credit)

1. About 89 per cent of the surveyed bank branches require confirmed order / LC before the release of pre-shipment credit with private banks being the strictest about this requirement. Other documents / requirements such as DP note, monitoring stocks/ hypothecation, and ECGC cover are of much less importance (4.B41).
2. The running account facility is provided by 68 per cent of the surveyed bank branches with relatively more SBI and foreign bank branches (above 75 per cent each) providing this facility. Only 69 per cent of the nationalised bank branches and 54 per cent of the private bank branches provide this facility to their exporter-clients (4.B42). The time permitted to submit LC is generally 15 to 30 days (4.B43). Past record is the most important basis for providing the running account facility (4.B44).
3. There has been no meaningful response to questions relating to export credit in foreign currency with more than 80 per cent bank branches not responding. These questions included queries with regard to the loan amount and interest rate stipulated for export credit in foreign currency (4.B45 to 4.B48).
4. The two most important methods used by the bank branches to ensure proper utilisation of the export credit include a) periodic confirmation from the client including inspection and personal visit by the bank staff, and b) monitoring the bank account (4.B49). The time duration for the packing credit generally varies between 136 and 180 days (4.B50).

4.2.1.D Post-Shipment Credit (Bill Financing)

1. The post-shipment credit (bill financing) is provided to the exporters after the shipment of the consignment. The documents required by the bank branches commonly include one or more of: a) original bill of exchange, b) invoice, c) original documents of shipping such as customs inspection certificate and the bill of lading, d) GR/SDF forms etc., and e) ECGC cover and other necessary security documents (4.B51).
2. About 90 per cent of the surveyed bank branches insist on checking “status report” of the buyer to whom the consignment is being exported. The only exception is foreign banks where only half the total surveyed branches insist on such check (4.B52). ECGC and Dun and Bradstreet are the two common sources used for checking the status report of the buyer with about three-fourths of the surveyed bank branches using either one of these two or both

simultaneously. Only about 15 per cent bank branches use other than these two sources. Relative to Indian banks, foreign banks rely more on “other” sources with one-third of their branches relying on other sources with only one-sixth of their branches using Dun and Bradstreet and none using ECGC reports (4.B53).

3. Nearly four-fifths of the bank branches claim that they dispatch export documents for realisation of export proceeds within one day while nearly all accomplish such dispatch within two days (4.B54).

4. A majority of the banks compensate exporters for delay in realisation in crediting export proceeds to exporters account (4.B55).

5. Less than one-tenth of the bank branches are not able to recover 20 per cent or more of the export credit advanced. All groups of banks, except Indian private banks, do quite well reporting a recovery rate above 90 per cent (4.B56). Recovery rates of “other than export credit” are relatively poor when compared with recovery rates of export credit with the exception of foreign bank branches (4.B57).

6. Banks use various methods to recover dues of export credit from defaulters. The commonly used methods include a) persuasion, b) follow up with buyer or buyer’s bank, c) getting the client downgraded at ECGC, and d) claims from ECGC. Less than half the surveyed bank branches also proceed ahead to take legal action against the defaulters. While the SBI and nationalised banks seem relatively more eager to take legal action, the foreign banks appear to be much less interested in suing their defaulters. Legal action seems relatively more common among the bank branches in north zone and least so in east zone (4.B58).

7. Banks observe various reasons leading to non-recovery of export credit advanced by them and there is no clear pattern as to why clients fail to pay back their dues to banks in time (4.B59).

8. About 53 per cent of all bank branches are “satisfied” with the extent of coverage under ECGC guarantee scheme. While 65 per cent of the SBI bank branches report such satisfaction only 46 per cent of the private banks seem satisfied. The proportion is 52 per cent for nationalised banks and 50 for foreign banks. Interestingly, about 38 per cent of the foreign bank branches prefer to be in “non-response” category rather than saying “satisfied” or “not satisfied”. The non-response category is negligible in the remaining bank groups (4.B60).

9. One-third of the bank branches desires the pre-shipment ECGC guarantee to cover 100 per cent risk (4.B61). Two-fifths of the bank branches expect post-shipment ECGC guarantee to cover 100 per cent risk (4.B62).
10. About one-fifth of the bank branches find their association with ECGC “very helpful” while another two-fifths report it as “helpful”. While more than 20 per cent of the SBI and nationalised bank branches rate their association with ECGC as “very helpful”, which is high relative to only 8-9 per cent of private and foreign bank branches saying so. Interestingly, the proportion of SBI and nationalised banks rating their association with ECGC as “not helpful” is also relatively high when compared with private and foreign bank ratings (4.B63).

4.2.1.E Utilisation of Delegated Power

1. Nearly two-thirds of the bank branches allow trade discount at the branch level with private bank branches playing relatively active role and SBI branches doing it at relatively low key (4.B64). Nearly three-fifths of all the bank branches allow reduction in invoice value at the branch level with proportion of foreign bank branches in their total being relatively high and that of SBI relatively low (4.B65). However, the decision of writing off the unrealised bills is taken mainly at regional/head office level except in the case of private bank branches (4.B66).
2. One-fourth of the bank branches provides export credit on elongated terms with foreign banks taking much more interest than other bank groups (4.B67).
3. Nearly three-fourths of the bank branches permit late submission of export documents foreign and private bank branches being more liberal than SBI and nationalised bank branches (4.B68). Branch level powers of granting permission for extension of time for realisation of proceeds are relatively high in the case of foreign banks but relatively low in the case of SBI and nationalised banks (4.B69). A similar observation can be made in the case of granting refund of export proceeds in the case of rejected goods (4.B70) and settling export claims (4.B71).

4.2.1.F Exporters’ Grievances

1. About three-fifths of the bank branches have never received any exporters’ grievances. While 67 per cent of the foreign bank branches have made this claim only 55 per cent of the SBI branches have made such claim. Nearly 36 per cent of the bank branches receive exporters’

grievances only occasionally with 41 per cent of SBI branches and 33 per cent of the foreign bank branches saying so (4.B72).

2. Nearly 55 per cent of the bank-branches address exporters’ grievances through providing appropriate and timely help. Whereas a relatively high proportion of 58 per cent of the nationalised bank branches have made this claim, only 50 per cent of the foreign bank branches have done so (4.B73).

3. Nearly one-fifth of the bank branches have never organised an exporters’ meet another one-fifth organise it once in three months. One-third of the bank branches organises such meet once in more than three months. Whereas 46 per cent of foreign bank branches report to have never organised an exporters meet only 13 per cent of the nationalised banks have never done so (4.B74).

4. Nearly four-fifths of the banks help exporters to realise their dues from the buyers with SBI branches not taking such active role. Exporters in north zone seem to be getting more help from their bankers as compared with exporters from west (4.B75).

5. Banks provide various other export-promotion services to their clients. Nearly one-third of the bank branches provide information about prospective markets/buyers to their clients with SBI and foreign bank branches playing relatively more active role and east zone appearing on the higher side. Nearly 12 per cent of the bank branches keep their clients alert about international risks and opportunities with private banks playing relatively more active role and west zone appearing on the higher side. Only one-tenth of the bank branches provide information to their clients about changes in domestic rules / procedures (4.B76).

4.2.1.G Availability of Trained Staff

1. Nearly 88 per cent of the banks send their staff for attending training courses on export operation / policy (4.B77).

2. More than two-thirds of the bank branches have managerial staff of up to three persons in their FOREX department (4.B78). Less than 50 per cent of the bank branches have other staff of up to three persons in their FOREX department (4.B79).

3. The average experience of the managerial staff in FOREX department is above three years in 43 per cent of the bank branches. The percentage of bank branches reporting such a length of experience of the managerial staff is relatively high in nationalised banks and low in foreign

banks. While two-thirds of the bank branches in north zone report average managerial experience of more than three years only one-tenth of the bank branches in south zone report thus (4.B80, Chart 4.7). A near similar experience rating has been reported for other than managerial staff in the FOREX departments of various bank branches (4.B81, Chart 4.8).

Chart 4.7: Percentage Distribution of Managerial Staff by Experience in FOREX Department

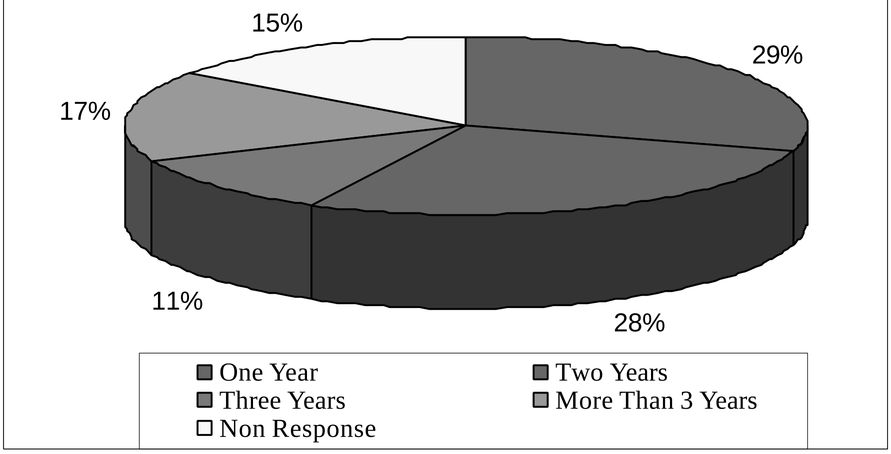
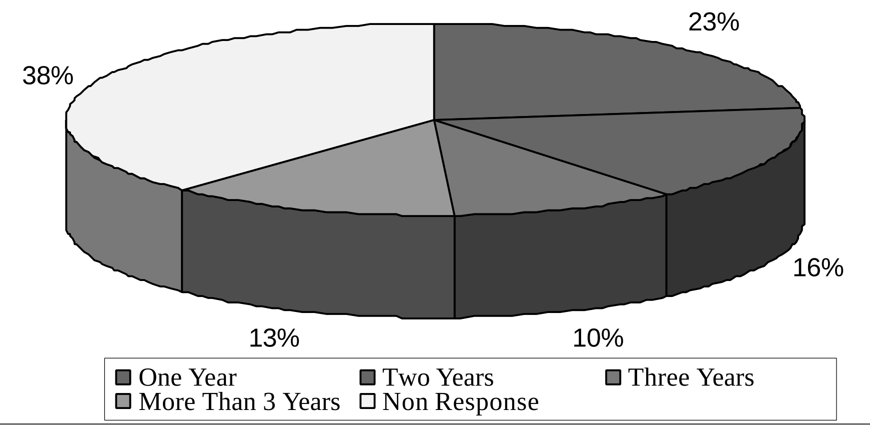


Chart 4.8: Percentage Distribution of Other Staff by Experience in FOREX Department



4.2.2 Banks' Adherence to RBI's Guidelines on Export Credit

One of the objectives of the study is to check whether banks are adhering to RBIs guidelines for export credit delivery system. Though most of the discussion has been reported in sub-section 4.2.1, we shall compute "banks' adherence index" (BAI) based on answers to 30 different questions selected from the bankers' questionnaire.[28] Questions included in the calculation of BAI along with marks allotted to them are as follows:

1. Sanctioning export credit to new exporters (*one* mark if "yes" and *zero* mark if "no").
2. Catering to the needs of small exporters (*one* if "yes" and *zero* if "no").
3. Procedure adopted for getting sanction of export credit from higher authorities (*zero* if the branch sends it to regional office which itself is not authorised to sanction such amount, *one* if it sends it directly to the appropriate sanctioning authority, and *two* if it undertakes both the steps simultaneously).
4. Procedure for obtaining additional ad-hoc export finance is simpler than getting the original grant limit (*one* if "yes" and *zero* "otherwise").
5. Assessment undertaken by the bank branch in the case of consortium-finance even if the consortium leader has already made an assessment (*zero* if "yes" and *one* if "no").
6. The bank branch permits its clients to avail of multiple banking facility (*one* if "yes" and *zero* if "no").
7. Fast sanctioning of loans for exporters with good track record (*one* if "yes" and *zero* if "no").
8. Provision for liberal sanctioning of export credit during the years of low export growth (*one* if "yes" and *zero* if "no").
9. Allowing exporters to interchange pre- and post-shipment limits (*one* if "yes" and *zero* if "no").
10. Time taken by the bank branch to sanction fresh credit limit (*one* if done within "45 days" and *zero* if time taken is above 45 days).
11. Time taken by the bank branch to sanction enhanced credit facility (*one* if done within "45 days" and *zero* if time taken is "above 45 days").
12. Time taken by the bank branch for renewal of existing limits (*one* if done within "30 days" and *zero* if time taken is "above 30 days").
13. Time taken by the bank branch to sanction ad-hoc credit limit (*one* if done within "15 days" and *zero* if time taken is "above 15 days").

[28] The selected 30 questions constitute various aspects of RBI's guidelines to banks on operation and simplification of export credit delivery system.

14. Time taken by the bank to sanction post-shipment credit limit (*one* if done within “45 days” and *zero* if time taken is “above 45 days”).
15. Processing fee for sanctioning of fund-based credit limit (*one* if “up to 0.1 per cent” and *zero* if “above 0.1 per cent”).
16. Processing fee for sanctioning of non fund-based credit limit (*one* if “up to 0.05 per cent” and *zero* if “above 0.05 per cent”).
17. Time taken in dispatching export documents for realisation (*one* if it is done “within 2 days” and *zero* if it takes “more than two days”).
18. Compensating exporters in case there is delay in dispatching export documents (*one* if “yes” and *zero* if “no”).
19. On decision of approval of trade discount taken at the branch level (*one* if “yes” and *zero* if “no”).
20. On decision of approval of the reduction in invoice value taken at the branch level (*one* if “yes” and *zero* if “no”).
21. On decision of approval of writing-off the unrealised bills taken at the branch level (*one* if “yes” and *zero* if “no”).
22. On decision of approval of credit to exporters on elongated terms taken at the branch level (*one* if “yes” and *zero* if “no”).
23. On decision of approval of delayed submission of export documents taken at the branch level (*one* if “yes” and *zero* if “no”).
24. On decision of approval of permission to extend time for realisation of proceeds taken at the branch level (*one* if “yes” and *zero* if “no”).
25. On decision of approval to refund export proceeds in the case of rejected goods taken at the branch level (*one* if “yes” and *zero* if “no”).
26. On decision to approve export claims taken at the branch level (*one* if “yes” and *zero* if “no”).
27. On organisation of exporters meets to facilitate interaction between the bank branch and its exporting clients (*one* if “yes” and *zero* if “no”).
28. On FOREX staff having attended some training course on export operations/policy (*one* if “yes” and *zero* if “no”).

29. On compensation for the delay if the bank branch delays crediting the realised export proceeds to exporter's account (*one* if "yes" and *zero* if "no").
30. On exporters getting help from the bank branch when the overseas buyer fails to pay the export proceeds (*one* if "yes" and *zero* if "no").

The BAI has thus been given a range from 0 to 31. The same has been converted into a scale of 0 to 100 and classified in four groups, viz. *poor* (BAI up to 50), *average* (BAI between 50 and 60), *good* (BAI between 60 and 80) and *excellent* (BAI more than 80). Table 1 provides distribution of banks groups by region according to bank index. At the all-India level, about 8.3 per cent of bank branches fall under the *poor* category with regard to their adherence to the RBI's guidelines for export credit delivery system. In contrast, about 13.5 per cent of the bank branches get *excellent* grade. About 21 per cent of all the bank branches turn out as *average* and 57 per cent as *good*.

Analysing the *excellent* grade for different groups of banks, foreign banks stand apart with a distinction. About 29 per cent of all the foreign bank branches under survey qualify as *excellent.* In the case of SBI and associate branches as low as 6 per cent turn out as *excellent*. The nationalised and private bank branches are "revealed" mediocre performers with less than 15 per cent turning out as *excellent*.

The distribution of *excellence* across four zones is quite interesting. The SBI and associate bank branches have received the least proportion of *excellent* awards in all four zones except in the western region where the nationalised banks have this position. Incidentally, not a single SBI and associate bank branch has been rated as *excellent* in the eastern region and only 4 per cent have done so in the northern region.

"Revealed" excellence of the foreign bank branches is the highest in northern region with 75 per cent branches having turned out as "excellent". The proportion is much lower in other three regions with 25 per cent in eastern region, 20 per cent in western region and only 17 per cent in southern region.

The nationalised banks “reveal” relatively better *excellence* in western and southern regions as compared to northern and western regions. Only 7 per cent of the nationalised bank branches have “revealed” themselves as excellent in the eastern region.

Private Indian banks seem to be doing relatively better in western and southern regions as compared to northern and eastern regions. Not a single private bank branch is “revealed” *excellent* in eastern region.

The foregoing discussion is based on the *excellent* grade. The situation appears brighter if one also looks into “revealed” *good* grades of all the banks. In fact, three-fourths of the private and foreign bank branches have revealed themselves as above *average*, i.e. *good* and *excellent*. The corresponding proportion is somewhat less than three-fourths in the case of nationalised bank branches but low in the case of SBI and associate bank branches. Only three-fifths of the SBI and associate bank branches are above *average*.

Table 1

Percentage Distribution of Banks on the Basis of Index on Adhering to RBIs Guidelines

Bank Groups/Region	Banks Score on Adhering to RBI Guidelines				
	Poor	Average	Good	Excellent	All
Northern Region					
Group 1	12.0	32.0	52.0	4.0	100.0
Group 2	5.2	13.8	69.0	12.1	100.0
Group 3	0.0	18.2	72.7	9.1	100.0
Group 4	25.0	0.0	0.0	75.0	100.0
All Bank Groups	7.1	18.4	62.2	12.2	100.0
Eastern Region					
Group 1	25.0	37.5	37.5	0.0	100.0
Group 2	18.8	12.5	43.8	25.0	100.0
Group 3	0.0	25.0	75.0	0.0	100.0
Group 4	0.0	25.0	50.0	25.0	100.0
All Bank Groups	15.6	21.9	46.9	15.6	100.0
Western Region					
Group 1	16.7	22.2	50.0	11.1	100.0
Group 2	8.5	27.1	57.6	6.8	100.0
Group 3	3.6	28.6	50.0	17.9	100.0
Group 4	0.0	30.0	50.0	20.0	100.0
All Bank Groups	7.8	27.0	53.9	11.3	100.0
Southern Region					
Group 1	6.7	13.3	73.3	6.7	100.0
Group 2	8.1	18.9	51.4	21.6	100.0
Group 3	8.3	12.5	62.5	16.7	100.0
Group 4	0.0	16.7	66.7	16.7	100.0
All Bank Groups	7.3	15.9	59.8	17.1	100.0
All India					
Group 1	13.6	25.8	54.6	6.1	100.0
Group 2	8.2	19.4	58.8	13.5	100.0
Group 3	4.5	20.9	59.7	14.9	100.0
Group 4	4.2	20.8	45.8	29.2	100.0
All Bank Groups	8.3	21.1	57.2	13.5	100.0

Group 1: SBI and associate banks
Group 2: Nationalised banks
Group 3: Private (including Co-operative) banks
Group 4: Foreign banks

4.3 Exporters' Perspective

The level of satisfaction of 1762 exporters surveyed in the present study has been analysed in this section. The tabulation of results of exporters' satisfaction with export credit delivery system has been reported in Tables 4.E1 to 4.E94. In order to facilitate the analysis of results, the 32 product categories have been merged into 9 major categories (Table 2). We provide major observations on exporters' level of satisfaction in sub-section 4.3.1. The expressed level of exporters' satisfaction is detailed out in Tables 4.E85 to 4.E88. We also construct an "index of exporters' satisfaction" by comprehending their mood as "revealed" through answers to several other questions in the questionnaire. The later exercise is similar to indexing the bankers' adherence to the RBI guidelines. We report results of "revealed" satisfaction of exporters in sub-section 4.3.2 of this section. Exporters' overall level of satisfaction, based on the response to one single question (Question 42 of exporter questionnaire) has been analysed using a simple econometric exercise in sub-section 4.3.3. There is a possibility of a bias, expected to be an overestimate of exporters' level of satisfaction in response to question 42 in case the sample of exporters' was selected based on the addresses provided by their bankers. An assessment of such a bias in exporters' responses based on whether an exporter's address had been taken from its banker or not is provided in sub-section 4.3.4. Finally, suggestions provided by those exporters who have granted "poor" and "very poor" levels of satisfaction in response to question 42 have been presented in sub-section 4.3.5.

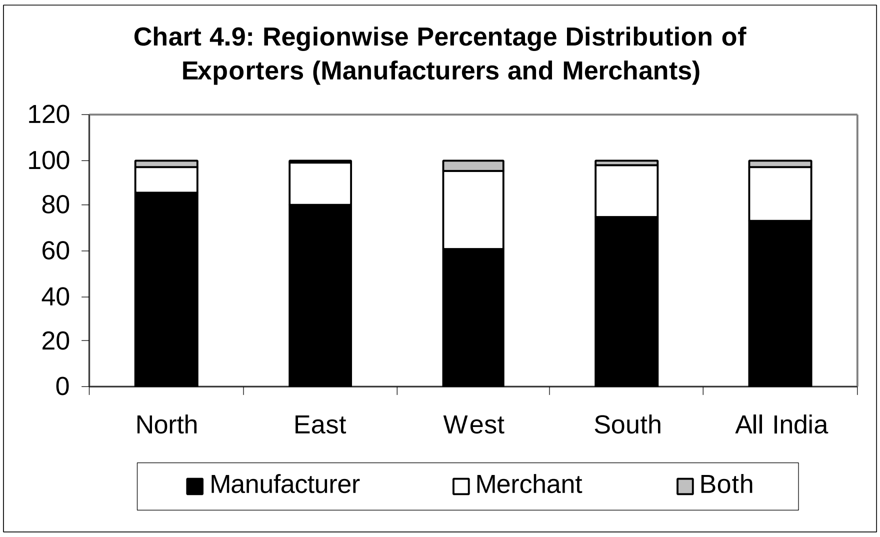
Table 2: New Product Groupings

New Grouping	Old Product Categories
Readymade Garments	Readymade Garments
Textiles	Textiles
Handicrafts	Handicrafts, Handlooms, Hosiery, Agarbattis, Brassware and Carpets
Engineering Products	Engineering Products, Auto Components, Electronics, Textiles Machinery
Agro-products	Rice, Coffee, Tea, Coir Products, Spices, Jute Products, Soya Product and Tobacco
Other Products	Aluminium, Cycles, Granite, Iron Ore, Sea Food, Silk and Sports Goods
Chemicals	Basic Chemicals, Drugs & Pharmaceuticals, and Dyes & Chemicals
Leather Products	Leather Products
Diamonds, Gems and Jewellery	Diamonds, Gems and Jewellery

4.3.1 Analysis of Exporters' Responses to the Exporter Questionnaire

4.3.1.A The Sample Profile: Spread by Type and Region

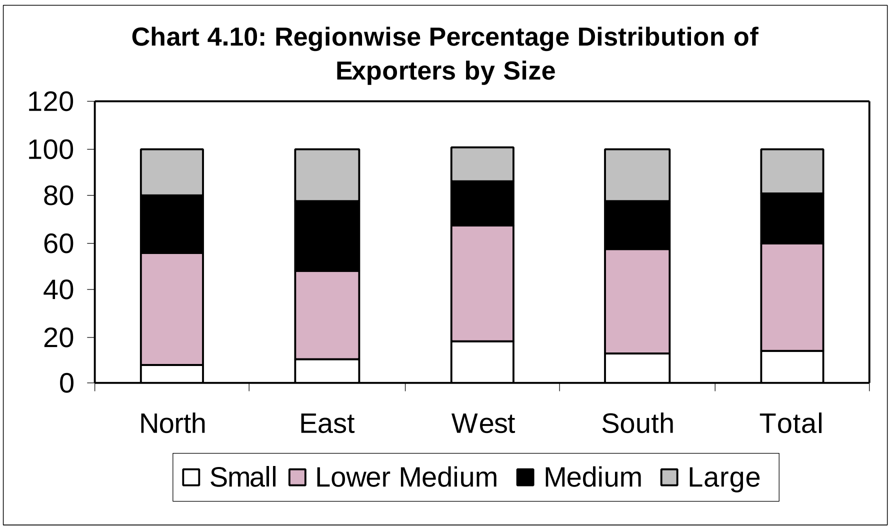
1. A total of 1762 valid responses from exporters have been analysed. About 73 per cent of these are manufacturer exporters, 24 per cent merchant exporters and about 3 per cent deal in both. Northern region has relatively higher proportion (85 per cent) of manufacturer exporters while the western region has relatively low proportion (61 per cent) of manufacturer exporters (Table 4.E1, Chart 4.9). About 35.6 per cent of all the exporters are from western region, 29.9 from southern region, 23.0 per cent from northern region and only 11.5 from eastern region (4.E2).

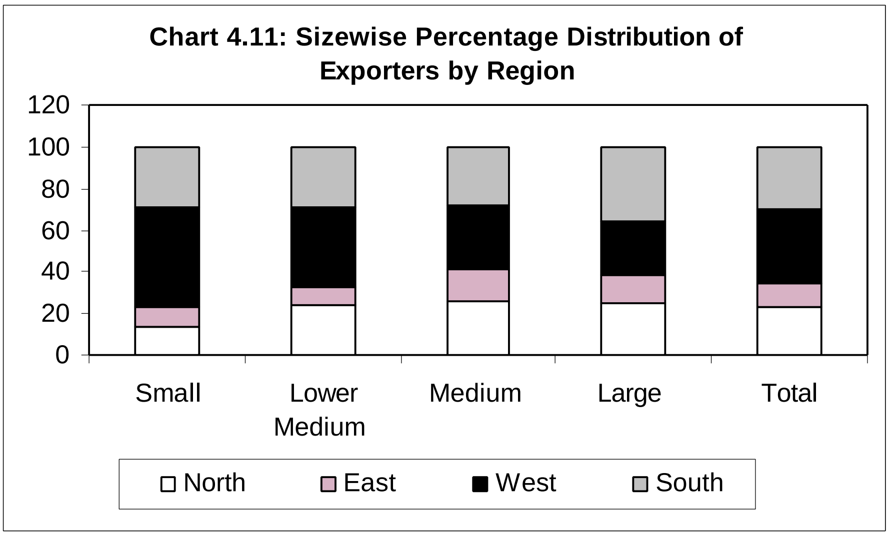


2. About 31 per cent of the exporters are registered as export house, another 12 per cent as trading house, star trading house and super star trading house, while 57 per cent do not belong to any of these categories. While nearly two-fifths of all the exporters in east and south are export houses, west has only one-fifth of its exporters in this category while north has about one-third of its exporters in this category (4.E3). Among all the export houses, the maximum is in south (37.5 per cent) and the minimum in east (14.9 per cent). Of small exporters who do not belong to any of the "house" category, a very large proportion of above 43 per cent lies in west while a very small proportion 10.2 per cent lies in east (4.E4).

3. Of all the responding exporters, about 32 per cent are export-oriented units (EOU) and about 3.7 per cent are under export promotion zones (EPZ). Responses from north and east zones contain relatively high proportion (above 45 per cent) of EOU while only about one-fourth of responding exporters in west and south zones are in this category (4.E5). Among all the EOU units about one-third lie in north and only one-sixth in east. Within EPZ units, the maximum concentration is in south (45 per cent) and the minimum in west (14 per cent) (4.E6).

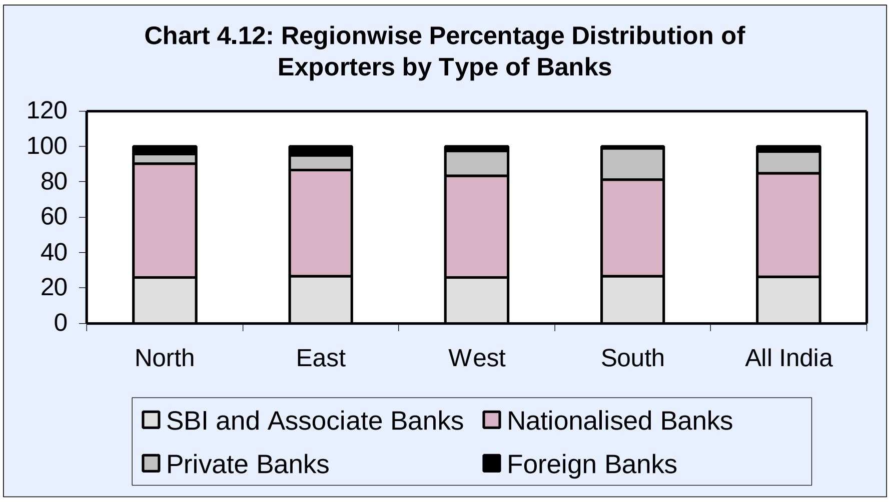
4. About 13 per cent of the exporters are "small", 46 per cent "lower-medium", 22 per cent "medium" and 19 per cent "large" (4.E7, Chart 4.10). Among all the small exporters, nearly 48 per cent are in west and only 9 per cent in east. Large exporters have very high concentration in south (35 per cent) but relatively low presence in east (14 per cent). (4.E8, Chart 4.11).





4.3.1.B The Sample Profile: Sources of Finance

1. While about 58 of all exporters get their export finance from nationalised banks, 26 per cent depend on SBI and associates, 13 per cent on private banks and only 3 per cent on foreign banks. Nearly one-quarter of exporters in each of the four regions depend on SBI and associates for finance. (4.E9, Chart 4.12).



2. The distribution of bank branches catering to credit needs of exporters in four different regions is exactly same as the distribution of exporters themselves since, in the present study, each exporter is supposed to be associated with one major bank branch (compare 4.E10 with 4.E8). Whereas the proportional spread of SBI and nationalised banks is quite similar across four export zones of India, private and foreign banks exhibit varying proportional distribution (4.E10).

4.3.1.C Sanction of Credit Limits

1. About 70 per cent of all exporters find pre-shipment sanction grant application form “simple”. In fact, another 13 per cent find it “very simple”. Thus a majority of exporters (83 per cent) have no problem in filling the form. On the other hand, about 13 per cent of exporters find it “difficult” and only 3 per cent of the exporters find it “very difficult” (4.E11,

Chart 4.13). Relatively large proportion of small and lower-medium exporters find this form difficult (4.E12, Chart 4.14). Within product categories, exporters of leather products; diamonds, gems and jewellery; and chemicals appear to be least satisfied while those of textiles; handicrafts; and engineering products most so (4.E13, Chart 4.15). With regard to the bank group association, exporters associated with nationalised banks are relatively least satisfied and those associated with foreign-banks most so (4.E14, Chart 4.16).

Chart 4.13:Regionwise Percentage Distribution of Exporters by Simplicity of Credit Limit Sanction Application Form

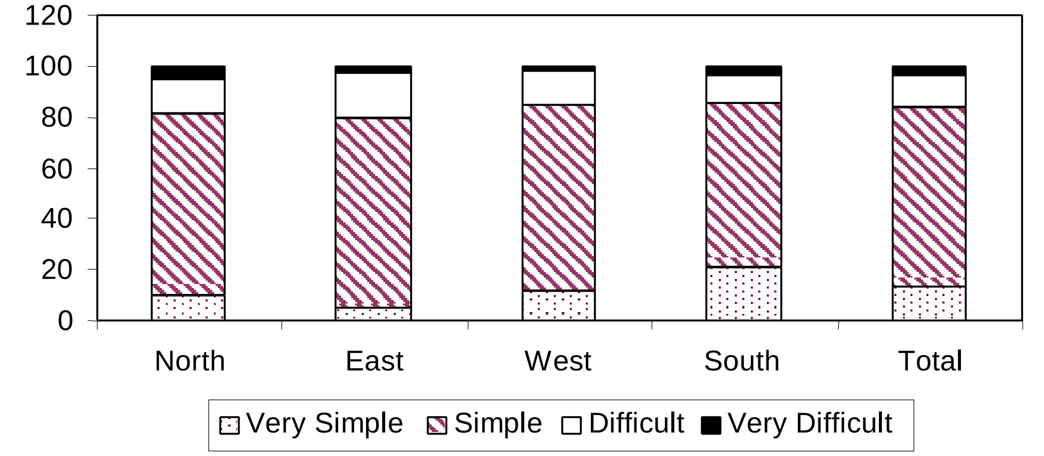


Chart 4.14: Sizewise Percentage Distribution of Exporters by Simplicity of Credit Limit Sanction Application Form

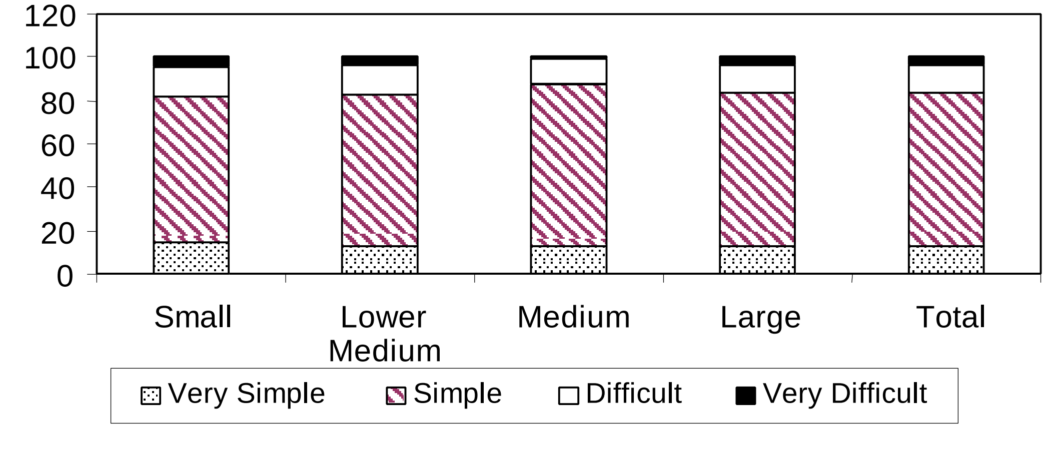


Chart 4.15 : Productwise Percentage Distribution of Exporters by Simplicity of Credit Limit sanction Application Form

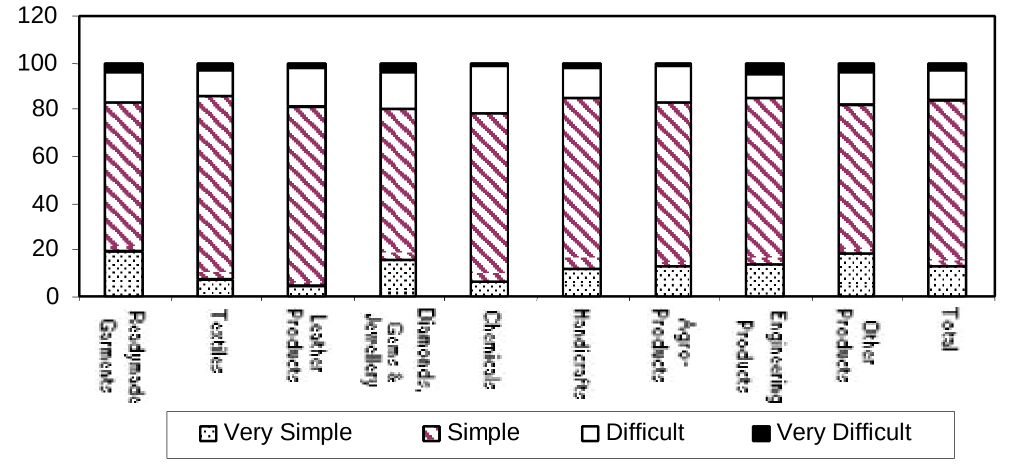
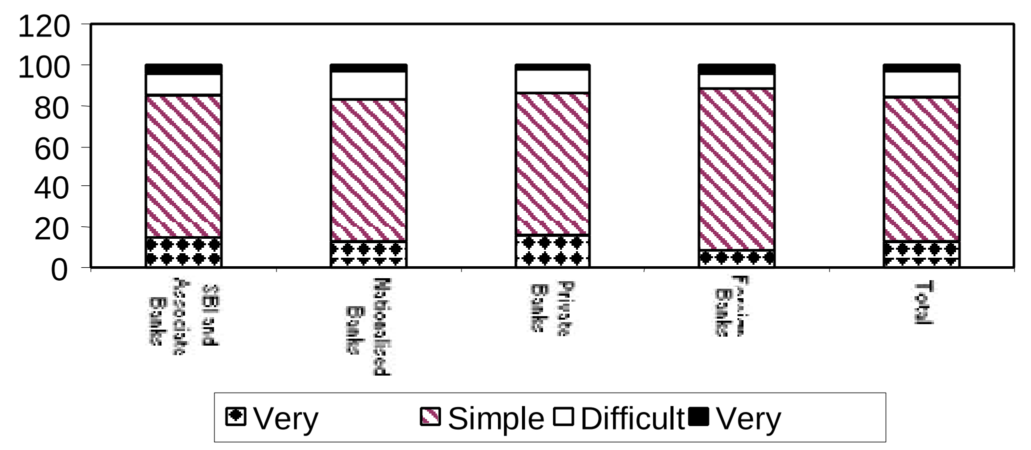


Chart 4.16: Bankwise Percentage Distribution of Exporters by Simplicity Credit Limit Sanction Application Form



2. With regard to information and documents required along with export-credit grant application form, about 77 per cent of the exporters find it "reasonable" with only 17 per cent declaring this requirement as "not-reasonable" and 6 per cent not reporting. There seems to be some problem with exporters in east with only 58 per cent being satisfied, 39 per cent not satisfied and only 3 per cent not responding (4.E15). Within size classification, the level of satisfaction

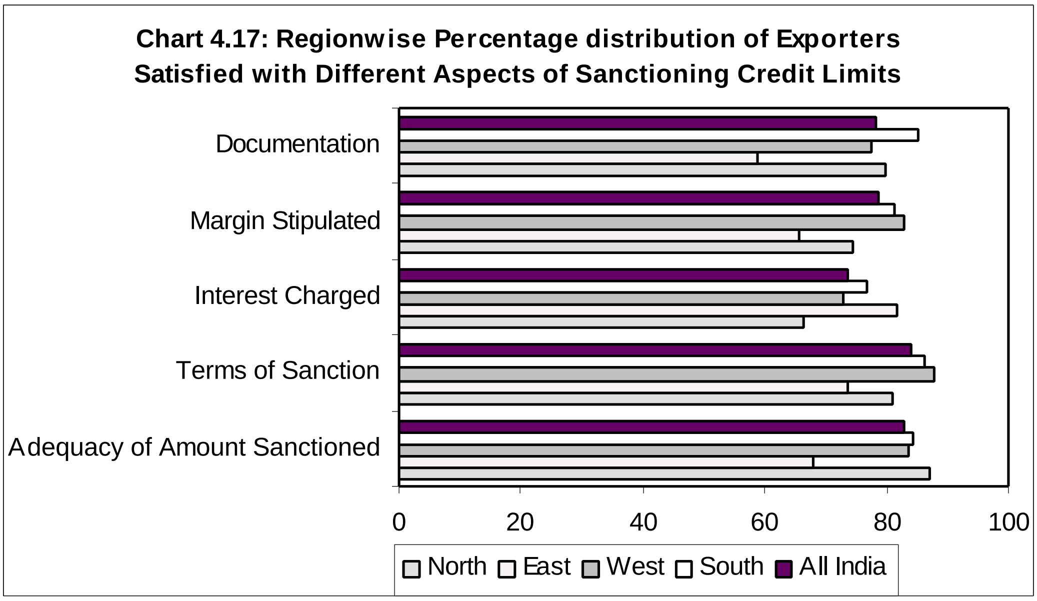
of medium exporters is relatively high and of small exporters relatively low (4.E16). Across various groups of export commodities, exporters of handicrafts, leather and “other” products being most satisfied and those of chemicals least so (4.E17). Exporters having dealings with SBI and private banks are relatively more satisfied than those with nationalised and foreign-banks (4.E18).

3. The level of satisfaction of exporters with the method of assessment for their credit requirements is as high as 86 per cent. Only 9 per cent exporters are not satisfied and another 5 per cent have not responded. Exporters in the east zone are relatively less satisfied as compared with exporters in other zones (4.E19). While medium exporters are relatively more satisfied the lower-medium exporters are less so (4.E20). Across product categories, exporters of chemicals and handicrafts are relatively most satisfied while those of leather products are least so (4.E21). Among the four bank groups, the nationalised banks impart the lowest level satisfaction to their exporter-clients (4.E22).

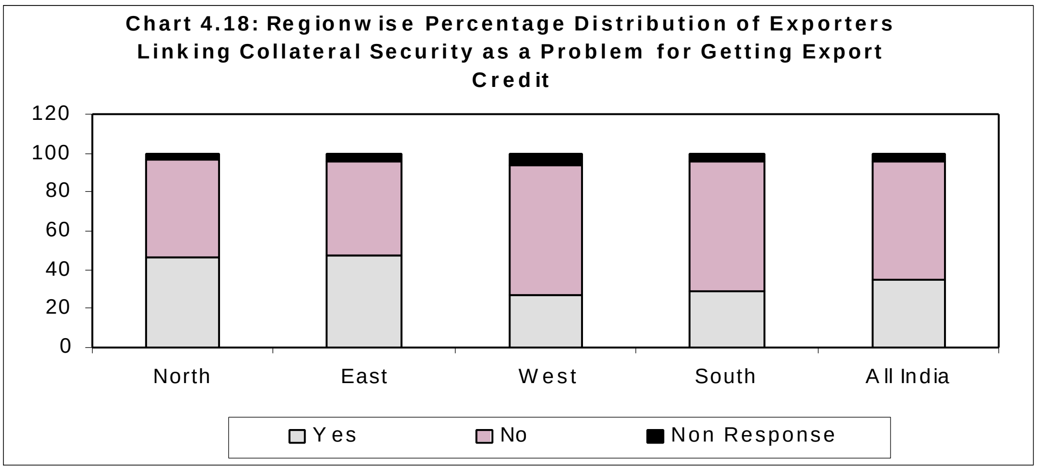
4. Two alternative methods of assessing credit requirements have been suggested by exporters across the country, viz. a) confirmed orders in hand; and b) past track record of the buyers (4.E23, 4.E24). In all, there have been 40 suggestions in favour of (a) and 38 in favour of (b) out of a total of 92 valid suggestions received.

5. About three-fourths or more of the exporters across four zones, four size groups, nine product categories and four bank groups are satisfied with five major aspects of credit sanctioning by the banks. These include a) adequacy of amount sanctioned, b) terms of sanction, c) margin stipulated, d) rate of interest charged and e) documentation. The level of satisfaction is relatively low in east the zone where, interestingly, exporters are by far the most satisfied with the rate of interest charged relative to other zones (4.E25). Only 73.5 per cent of all the exporters are satisfied with the rate of interest charged. However, more than 75 per cent of the large exporters are satisfied with this (4.E26). Less than 75 per cent of the diamonds,

gems and jewellery exporters are satisfied with adequacy of amount sanctioned. Less than 75 per cent of the exporters of textiles, leather products, chemicals, handicrafts and agro-products are satisfied with the rate of interest charged. Less than 75 per cent of the exporters of leather products, chemicals and handicrafts are satisfied with margin stipulated. Only 63 per cent of the textiles exporters are satisfied with documentation need (4.E27). As far as the exporter-banker relationship is concerned, less than 75 per cent exporters are satisfied with interest rate charged by nationalised and private banks with more than three-fourths of the exporters being satisfied with the rate if interest charged by the SBI and foreign banks (4.E28, Chart 4.17).



6. The controversial link between collateral security and provision of export credit presents interesting observations. Nearly one-third of all exporters feel that linking export credit provision to collateral security is a major problem. However, a majority of about three-fifths of exporters does not feel thus. About 5 per cent did not respond to this question. However, a larger proportion of exporters in north and east finds this to be a problem as compared with exporters of west and south (4.E29). Relatively more of the small exporters do not find such relationship to be a problem as compared with other size groups (4.E30). Relatively more of the exporters of textiles, chemicals, agro- and engineering products do not find such relationship to be a problem as compared with others (4.E31). Relatively more exporters attached with nationalised banks face this linkage as a problem as compared with others (4.E32, Chart 4.18).



7. While asked about alternatives to collateral security, exporters came out with various suggestions. Confirmed orders / LCs turned out as the most common suggestion from exporters in west. ECGC cover is the major suggestion from exporters in east. Financial position of the company, past track record, personal guarantees by directors / partners and closer monitoring of the hypothecated stocks are preferred suggestions from exporters north. Buyer's and export country's credibility is a major suggestion from exporters in south (4.E33). Among all the suggestions received, 23 per cent favoured alternative to collateral security as ECGC cover; 20 per cent as confirmed orders / LCs; 17 per cent as financial position of the company; 16 per cent as past track record; and about 13 per cent as personal guarantees by directors / partners. Only 6 per cent of all the alternative suggestions favoured closer monitoring of hypothecated stocks and 5 per cent favoured buyer's and export country's credibility (4.E34). A total of 505 suggestions have been received.

8. Opinion seems to be divided regarding exporters' perception on the degree of helpfulness of facility to interchange between pre- and post-shipment credit limits. While 65 per cent of all exporters feel that it is helpful another 23 per cent feel otherwise. About 12 per cent exporters have not responded. Relatively high proportion of exporters in north, as compared with south, perceives such interchange helpful (4.E35). Relatively high proportion of large exporters, as compared with small, perceives such interchange helpful as compared with that small (4.E36). Relatively high proportions of exporters of readymade garments; textiles; diamonds, gems and jewellery; and handicrafts, as compared with others perceive such interchange helpful (4.E37). Relatively high proportion of exporters banking with foreign banks, as compared with those banking with other bank groups, perceive such interchange helpful (4.E38).

4.3.1.D Post Sanction Disbursal

1. Packing credit is the most common form of pre-shipment finance availed by exporters along with advances against cheque / draft received or / and receivables from the government (4.E39 to 4.E42)

2. Packing credit is mainly used for purchase of raw material, and processing and packaging of goods to be exported. This observation is common across regions, sizes, products and bank classification (4.E43 to 4.E46).

3. A large proportion (four-fifths or more) of exporters avail packing credit in the form of Indian rupees rather than in foreign currency. Less than 3 per cent of the exporters use packing credit in foreign currencies. Nearly 13 per cent have not responded (4.E47). Foreign currency packing credit is more common for exporters in east zone; medium and large exporters; chemical and handicraft exporters; and exporters attached with SBI and foreign bank branches (4.E48 to 4.E50).

4. More than 70 per cent of exporters have “no idea” about banks’ assistance for timely claim from ECGC. Relatively more ignorance exists in north and east; small and medium exporters; exporters of readymade garments, chemicals and “other” products; and exporters associated with SBI and foreign bank branches (4.E51 to 4.E54). Nearly the same hold true about adequate support from ECGC for timely claim for defaulting cases (4.E55 to 4.E58).

5. More than 87 per cent exporters report that banks adhere to timely disbursement of export credit. North zone turns out to be the most efficient with a figure of 92 per cent with east zone touching only 79 per cent mark (4.E59, Chart 4.19). Medium and large exporters have reported better timeliness in credit disbursal as compared to lower-medium exporters. Small exporters are just touching the average mark (4.E60, Chart 4.20). Exporters of readymade

garments, leather products, handicrafts and “other” products have reported better time compliance by their respective bank branches (4.E61, Chart 4.21). Time compliance is better in the case of SBI and foreign bank branches than in nationalised and private bank branches (4.E62, Chart 4.22).

Chart 4.19: Regionwise Perception of Exporters Regarding Timely Disbursement of Credit

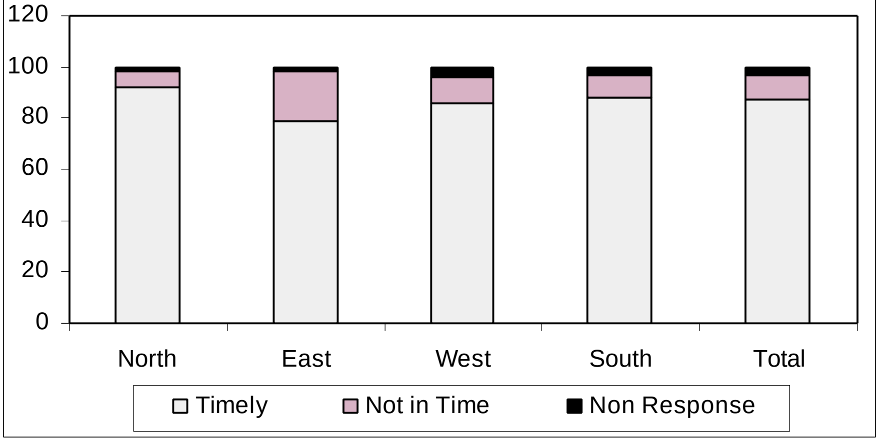


Chart 4.20: Sizewise Distribution of Exporters Regarding Timely Disbursement of Credits

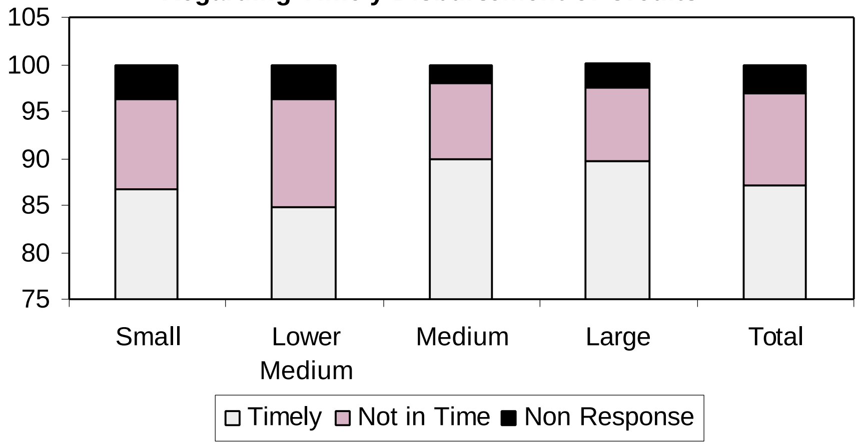
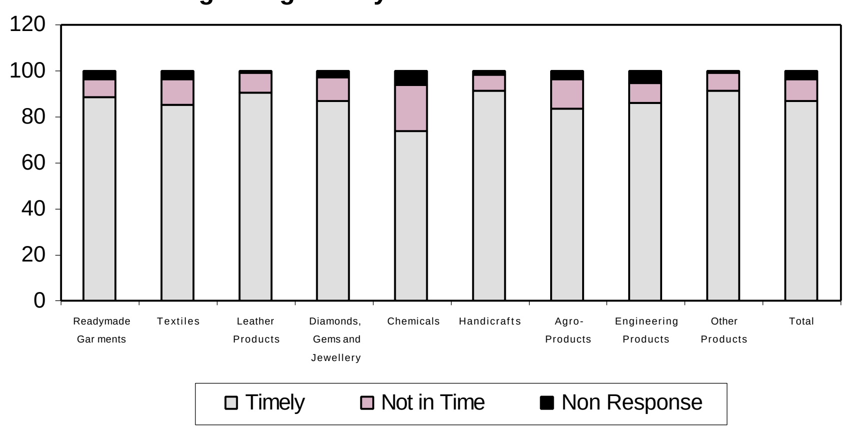
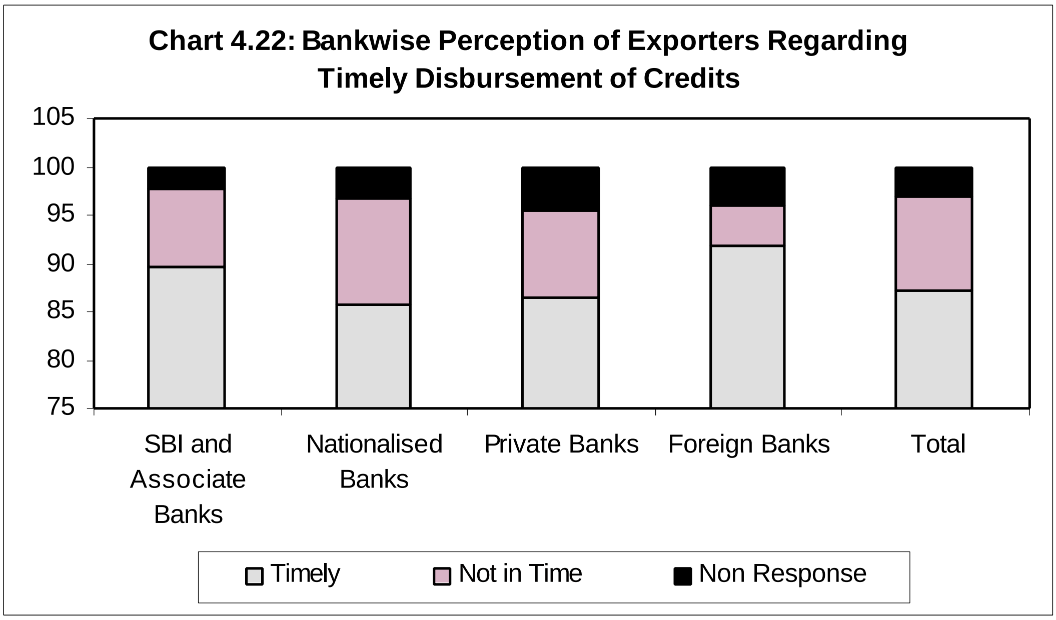


Chart 4.21: Productwise Perception of Exporters Regarding Timely Disbursement of Credits





4.3.1.E Utilisation of Delegated Powers

1. From exporters' responses to a question on difficulties faced by them in settling their claims with the banks only 98 valid complaints have been received. While 64 complaints deal with delays due to procedures / indifferent staff attitude, 18 relate to banks' inability to utilise delegated powers. There are eight complaints relating to the lack of management information systems and computerisation, and lack of transparency in banks' responses (4.E63). Most of the complaints in each of the four regions attribute delays due to procedures and indifferent staff attitude (4.E64).

2. Only 27 per cent of all the exporters get compensated for delay in crediting export proceeds after realisation. Whereas banks in the southern region are doing better by compensating 43 per cent of the responding exporters, the proportion is below one-fifth in east and west (4.E65, Chart 4.23). Relatively high proportion of medium and large exporters gets compensated as compared with small and lower-medium ones (4.E66, Chart 4.24). Across product groups, exporters of readymade garments, chemicals, agro and other products seem to be relatively well compensated than other product groups (4.E67, Chart 4.25).

Interestingly, SBI and private banks have a better record of such compensation than nationalised banks and with foreign banks exhibiting the poorest record (4.E68, Chart 4.26).

Chart 4.23: Regionwise Percentage Distribution of Exporters Regarding Compensation for Delay by

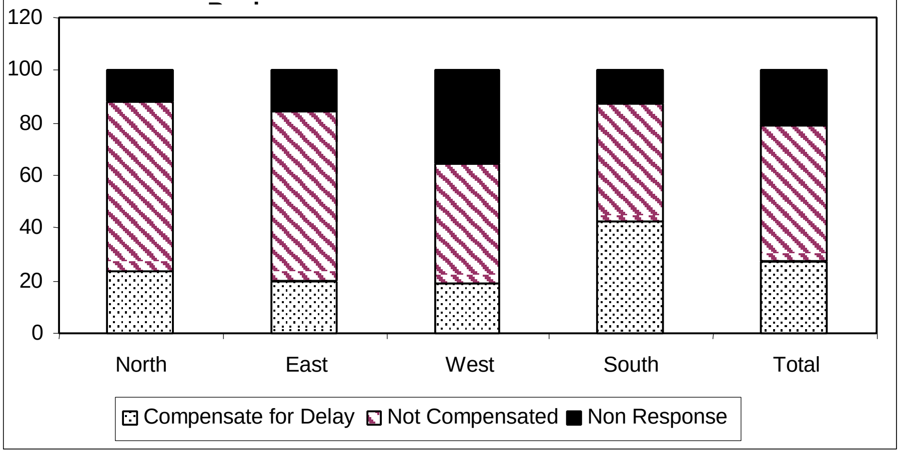


Chart 4.24: Sizewise percentage Distribution of Exporters Regarding Compensation of Delay by

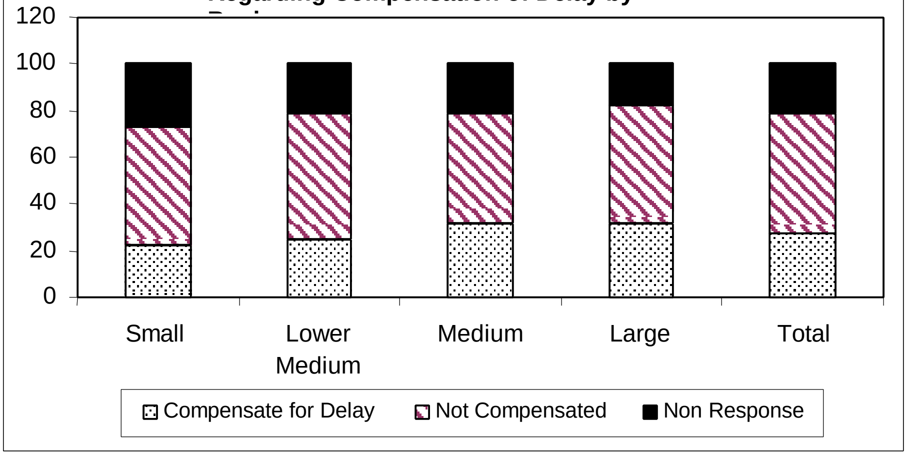
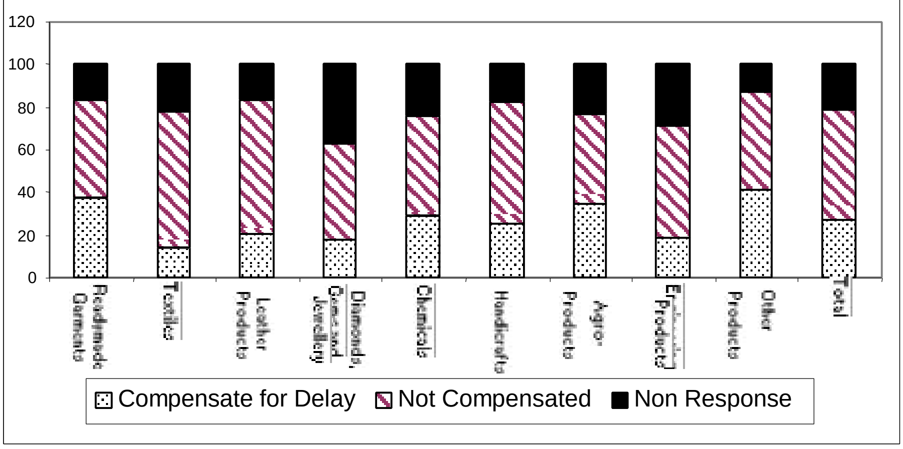
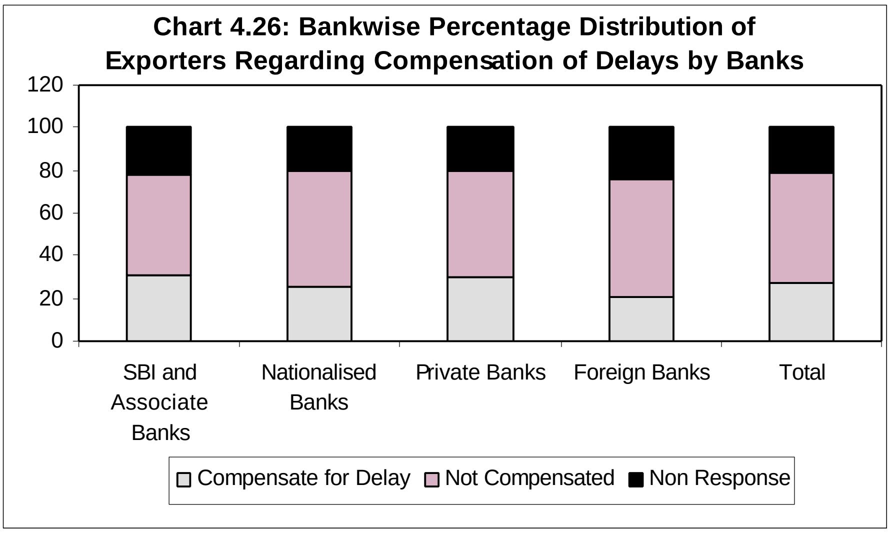


Chart 4.25: Productwise Percentage Distribution of Exporters Regarding Compensation for Delay by Banks





4.3.1.F Impressions about Bank Services

1. It is interesting to note that three-fourths of all the exporters consider training and experience of their dealing banks' branch staff regarding export credit matters as above average with more than half of all exporters granting them "good" and nearly one-fourth granting "excellent" to them. This leaves only about one-fourth of all the exporters who grant average and lower marks to their banks in this regard, i.e. "average", "poor" and "very poor". However, the proportion of "excellent" awards across regions varies with west recording relatively high proportion as compared with east. East also lacks in awarding "good" remarks only 41 per cent saying so compared with the national average of 51 per cent. More than 40 per cent of exporters in the eastern region have granted average and lower marks to their banks compared with the national average of less than 25 per cent. Clearly, there are problems in the eastern region (4.E69). Across size-groups, exporters in medium and lower-medium categories grant relatively high degree of excellence to their banks as compared with large and small size-groups (4.E70). Exporters of leather products and of diamonds, gems and jewellery have granted a very high degree of excellence to their bank branches when compared with that given by exporters of other categories (4.E71). Across bank groups, the highest proportion of "excellent" awards goes to private banks (28 per cent) followed by

nationalised and foreign banks (25 per cent each) and tailed by SBI and associate banks (20 per cent). Less than one-fifth of the foreign bank branches are rated as “average and below” compared with above 25 per cent for nationalised and private banks but only 22 per cent for SBI and associates (4.E72).

2. Exporters’ impressions about bank branches organising exporters’ meet are not generally good. Only 8 per cent consider such effort by their banks as “excellent” and 27 per cent consider this as “good”. Nearly three-fifths of all the exporters grant such effort average or lower grades. About 5 per cent of the exporters have “no idea” about any such effort (4.E74). Whereas about 36 per cent exporters have granted “good” and “excellent” remarks to such effort by their banks, the number is relatively high in the case of leather products, readymade garments and agro products. Exporters of diamonds, gems and jewellery, as compared to others, have reported relatively high degree of excellence (4.E75). The combined “good and excellent” score is relatively high for SBI and private banks (38 per cent) as compared with nationalised banks (34 per cent), with foreign banks getting the least score (30 per cent) (4.E76).

3. Nearly three-fifths of the exporters have granted “above average” marks regarding their impressions about bank branch attending to their credit related problems. About one-fourth consider it average while about one-eighth consider it below average. North gets relatively high marks among “excellent” scores while west scores over other three among “good” (4.E77). The smallest proportion (51 per cent) of “good” and “excellent” scores has been granted by small-exporter group (4.E78). Across product categories, readymade garments; leather products; and diamonds, gems and jewellery have relatively high “excellent” impression about this issue as compared with others while agro products; engineering products; and other products have relatively high “good” impression as compared with others (4.E79). Relatively high “excellent” has been granted by exporters associated with private

banks while relatively high "good" score has been granted by those in alliance with foreign banks (4.E80).

4. More than two-thirds of all exporters carry "above average" impression about computerisation and SWIFT facility in their dealing bank branches. Less than one-tenth of the exporters have granted "poor" or "very poor" impression with regard to this issue. North gets relatively high proportion of "excellent" remark and south gets such high proportion in "good" remark (4.E81). As per size classification, all except small exporters have awarded about 30 per cent "excellent" remark with small exporters putting this at 20 per cent only. Large exporters have awarded relatively high "good" remark as compared with others (4.E82). Relatively high proportion of "excellent" remark has been given by exporters of leather products and of diamonds, gems and jewellery relative to others. "Good" remark has been relatively generously granted by exporters of chemicals, engineering products and those of "other products" (4.E83). Relatively high proportion of foreign banks have received "excellent" grade while relatively high proportion of SBI and associated have received "good" grade (4.E84).

5. One of the most important findings of this study has been that more than three-fourths of all exporters are satisfied with overall level of satisfaction with the bank services relating to export credit delivery. While 23 per cent of exporters have granted this as "excellent" another 54 per cent have graded the same as "good". The only exception is eastern region where these proportions are relatively low with only 12 per cent exporters awarding "excellent" and 48 per cent awarding "good" (4.E85). About 40 per cent of exporters in east have thus awarded "average and below" grades as compared with 23 per cent national average. Whereas relatively low proportion of small exporters has granted "excellent" grade, relatively high proportion of large exporters has awarded "good" grade (4.E86). While a relatively high proportion of exporters of readymade garments have granted "excellent" grade, it relatively

high proportion of exporters of textiles who have awarded “good” grade (4.E87). There does not seem to be much difference in exporters satisfaction across bank groups except some edge in the proportion of private banks getting “excellent” and in that of SBI and foreign bank groups in achieving “good” grade (4.E88).

4.3.1.G Suggestions

1. A total of 1377 suggestions have been received with regard to a) rules and procedures, b) costs, c) bank cooperation, d) bank modernisation, and e) government facilities. Most of these suggestions (above four-fifths) relate to the first two, i.e. rules and procedures, and costs. Out of the total of 1377, 55 per cent suggestions are on improving / simplifying rules and procedures, 28 per cent on reducing various types of costs, 10 per cent on better bank cooperation, 5 on bank modernisation, and only 2 per cent on asking for better government facilities. While the maximum suggestions (35 per cent) have been received from west, the figure is 30 per cent from north, 22 per cent from south and about 13 per cent from east (4.E89).

2. Out of a total number of 759 suggestions related to rules and procedures, about one-third express desire to simplify rules and regulations whereas 23 per cent of these intend quicker decision making by the bank branches. About 14 per cent suggestions ask banks to adhere to the RBI guidelines, 11 per cent favour greater flexibility in bank branches’ day-to-day working and 10 per cent suggest using alternatives to collateral security. Nearly 5 per cent of the suggestions intend lower margins against firm orders / LCs and 4 per cent opine that the post-shipment credit procedure needs simplification. Whereas west puts relatively high proportional emphasis on simplification of rules, east puts it on quick decision making, north on banks adhering to the RBI guidelines, and south on simplification of post-shipment credit procedure (4.E90).

3. A total number of 385 suggestions have been received for reducing various costs related to export credit. Nearly 70 per cent of these ask for lower interest charges and only 22 per cent demand lower "other charges". Only 4 per cent of all the suggestions have asked for lower ECGC insurance premium and another 4 per cent for lower charges on FOREX transactions. Whereas west puts relatively high emphasis on lower interest charges, east puts it on lower "other charges" (4.E91).

4. Of the total number of 133 suggestions received with regard to better cooperation by the bank branches, nearly 35 per cent ask for provision of timely information on changes in domestic rules and regulations, 33 per cent desire better information on prospective markets and buyers, 17 per cent request bank branches to facilitate timely receipt of duty drawbacks by exporters, 10 per cent request for friendly and promotional treatment to small and new exporters, and another 5 per cent desire for increased time of FOREX operations department. As compared with other regions, east emphasises more upon timely information on changes in domestic rules and regulations. West puts relatively high emphasis for better information on prospective markets and buyers (4.E92).

5. Nearly half of the 73 suggestions received asking for bank modernisation demand trained and efficient staff in FOREX departments of bank branches whereas another 40 per cent desire efficient management information system. Only one-tenth of 73 suggestions favoured online disbursement of credit. North has emphasised relatively more on trained and efficient staff in FOREX departments, east on efficient management information system, and west on online disbursement of credit (4.E93).

6. As low as 27 suggestions have been received asking for better government facilities with 82 per cent wanting extra facilities for export promotion and the remaining 18 per cent desiring less time for getting duty drawback. Whereas east and west have given 100 per cent emphasis

on government providing extra facilities for export promotion, north's emphasis is relatively high on less time for getting duty drawback (4.E94).

4.3.2 Exporters' Satisfaction Index: Derived

Exporters' satisfaction with export credit delivery system has already been discussed in part (5) of sub-section 4.3.1.F based Tables 4.E85 to 4.E88. This analysis was based on a single question (42) of the exporter's questionnaire. We would like to check exporters' response to question (42) through deriving an alternative form of exporters' satisfaction index (ESA) based on their answers to five important and related questions asked in the exporters' questionnaire. The following five key questions along with respective marks have been chosen:

1. Are you satisfied with the method of assessing your credit requirements (*one* mark if "yes" and *zero* mark if "no")?
2. How do you rate the bankers' services with respect to sanctioning of the credit (average value of rating on scale 1 to 5)?
3. Was the disbursement of credit timely (*one* mark if "yes" and *zero* mark if "no")?
4. Ranking of bank services on a scale of 1 to 5 (average value of the rating on scale 1 to 5).
5. Overall ranking of banks by exporters on export credit delivery (average value of the rating on scale 1 to 5).

The marking of questions where rating varies from 1 to 5 has been normalised to a scale of 0 to 1. Marks for a particular question have been computed as the ratio of its deviation from minimum marks allotted to an exporter to the range of marks (difference between maximum and minimum marks). Hence, marks allotted to an exporter with minimum value will be zero and with maximum will be 1. Marks allotted to all five questions are added up to derive exporters satisfaction index (ESA). Value of this index can vary from 0 to 5. A comparison of "expressed" and "derived" ESA is presented in Table 3 showing the two distributions. Details of the derived ESA with reference to region, size, bank association and product category are provided in Tables 4 to 7.

Table 3: Derived and Expressed Exporters' Satisfaction Index

Gradation of ESI	Distribution of Derived ESI	Distribution of Expressed ESI
Poor	**7.1**	**2.7**
Average	**19.3**	**20.1**
Good	**55.2**	**54.3**
Excellent	**18.4**	**22.9**
Total	**100.0**	**100.0**

Table 4: Region-wise Percentage Distribution of Exporters by Exporters' Satisfaction Index (Derived)

Region	Poor	Average	Good	Excellent	All
Northern	5.4	20.7	51.5	22.4	100
Eastern	19.3	21.3	47.0	12.4	100
Western	5.3	18.3	56.2	20.2	100
Southern	5.9	18.6	59.9	15.6	100
All India	7.1	19.3	55.2	18.4	100

Table 5: Size-wise Percentage Distribution of Exporters by Exporters' Satisfaction Index (Derived)

Size	Poor	Average	Good	Excellent	All
Small	9.8	17.5	58.1	14.5	100
Lower Medium	8.5	20.6	51.6	19.3	100
Medium	4.9	17.5	57.0	20.6	100
Large	4.2	19.3	59.8	16.6	100
All India	7.1	19.3	55.2	18.4	100

Table 6: **Bank-wise Percentage Distribution of Exporters by Exporters' Satisfaction Index (Derived)**

Bank Type	Poor	Average	Good	Excellent	All
SBI and Associate Banks	5.4	16.7	61.9	16.0	100
Nationalised Banks	8.6	20.6	51.7	19.1	100
Private Banks	4.1	19.9	56.1	19.9	100
Foreign Banks	4.1	14.3	61.2	20.4	100
Total	7.1	19.3	55.2	18.4	100

Table 7: **Product-wise Percentage Distribution of Exporters by Exporters' Satisfaction Index (Derived)**

Products	Poor	Average	Good	Excellent	All
Readymade Garments	6.7	17.4	55.1	20.9	100
Textiles	8.5	18.2	64.5	8.9	100
Leather Products	6.5	27.1	43.9	22.4	100
Diamonds Gems & Jewellery	3.9	23.5	52.0	20.6	100
Chemicals	4.6	20.2	60.6	14.7	100
Handicrafts	5.0	20.4	52.5	22.1	100
Agro-Products	10.4	21.2	50.3	18.1	100
Engineering Products	9.0	17.0	55.6	18.4	100
Others	6.5	16.1	55.5	21.9	100
Total	7.1	19.3	55.2	18.4	100

Table 8:Ratio of Expressed ESI to Derived ESI

	Poor	Average	Good	Excellent	Average
Region					
Northern	0.77	0.87	1.00	1.18	
Eastern	0.23	1.67	1.01	1.00	
Western	0.27	1.08	0.98	1.16	
Southern	0.39	0.86	0.97	1.52	
Average	0.42	1.12	0.99	1.21	0.94
Size					
Small	0.52	1.22	0.98	1.15	
Lower Medium	0.28	1.03	0.99	1.32	
Medium	0.57	0.99	0.98	1.16	
Large	0.35	1.03	0.98	1.22	
Average	0.43	1.07	0.98	1.21	0.92
Bank Type					
SBI and Associate Banks	0.31	1.04	0.97	1.32	
Nationalised Banks	0.37	1.04	1.00	1.23	
Private Banks	0.66	0.98	0.96	1.21	
Foreign Banks	0.00	1.43	0.97	1.00	
Average	0.34	1.12	0.97	1.19	0.91
Products					
Readymade Garments	0.36	1.19	0.88	1.36	
Textiles	0.22	0.98	1.02	1.61	
Leather Products	0.72	0.79	1.13	1.08	
Diamonds Gems & Jewellery	0.26	0.88	1.00	1.29	
Chemicals	0.20	0.64	0.99	1.76	
Handicrafts	0.58	1.08	0.99	1.04	
Agro-Products	0.41	1.08	0.98	1.29	
Engineering Products	0.36	1.30	1.04	0.91	
Others	0.40	1.04	0.96	1.24	
Average	0.39	1.00	1.00	1.29	0.92

4.3.3 Econometric Analysis of Exporters' Level of Satisfaction

We have undertaken a simple econometric exercise to check whether region, product category, size and associated bank group, as qualitative explanatory factors, have some influence on level of satisfaction of exporters. Ordinary least square has been used with log of the level of satisfaction (as expressed by exporters in response to question 42) being the dependent variable. The independent variables are zero-one dummy variables.[29] Such models are known as analysis-of-variance (ANOVA) models

Log (satisfaction) = f (region, size, product, bank group)

[29] Alternative names of such dummy variables are indicator, binary, categorical, qualitative or dichotomous variables. See Gujarati (1995).

Estimation of OLS, however, requires that one of the components of each of the qualitative dummy variables should not be included as an independent variable so as to avoid the problem of singularity. We shall need to exclude one of the four regions, one of the four size groups, one of the nine product categories and one of the bank groups. Excluded variables include *eastern* region, *engineering-products* category, *small* exporters and *nationalised* banks. The excluded components have been selected in a way that we get all positive estimated coefficients on the right hand side. This has been done through excluding various combinations of the four excluded components. Alternatively, it may be concluded from our estimate given in Table 9 that probability of a "small" exporter of "engineering-products" operating in the "eastern region" and dealing with a "nationalised" bank branch is likely to be among the least satisfied category. Another interpretation of Table 9 is that a "medium" size exporter in the "southern region" exporting one of the "other products" and dealing with a "private" Indian bank is likely to be among the most satisfied category.

Table 9 should, however, be read with caution since it only provides certain broad hints and not all estimated coefficients are statistically significant.

Table 9: Regression Results of Level of Satisfaction

(Dependent variable: Log of Level of Satisfaction; Independent binary dummy variables: region, product category, size and associated bank-group)

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Constant	0.3711	0.095	3.90	0.0001
North	0.3288	0.078	4.24	0.0000
West	0.3480	0.074	4.73	0.0000
South	0.3599	0.071	5.05	0.0000
Readymade Garments	0.1309	0.071	1.83	0.0673
Textiles	0.0324	0.078	0.41	0.6784
Leather	0.1313	0.100	1.31	0.1892
Diamonds, Gems & Jewellery	0.1180	0.103	1.14	0.2539
Chemicals	0.1938	0.099	1.95	0.0512
Handicrafts	0.0308	0.078	0.39	0.6939
Agro-Products	0.0580	0.084	0.69	0.4921
Other Products	0.2149	0.088	2.44	0.0149
Lower Medium Exporters	0.1688	0.062	2.71	0.0068
Medium Exporters	0.1944	0.070	2.78	0.0055
Large Exporters	0.1365	0.073	1.87	0.0614
SBI and Associate Banks	0.0421	0.047	0.90	0.3685
Private (inc. Co-Op) Banks	0.0813	0.123	0.66	0.5075
Foreign Banks	0.0162	0.062	0.26	0.7949
R-squared = 0.0304 Adjusted R-square= 0.0209 F-statistic = 3.204 Prob (F- statistic) = 0.0000				

Note: Dropped Variables are East, Engineering Products, Small Exporters and Nationalised Banks

4.3.4 Bias in Exporters' Responses

In order to check whether there is any systematic bias in responses of the exporters depending upon whether they were contacted through taking their addresses from their concerned bank branch or, alternatively, they were contacted through some other source. This may happen because of two reasons, viz. a) bank branch might provide addresses only of the satisfied exporters; or / and b) bank branch may overstate its level of satisfaction lest its banker should stop providing various facilities in case the exporter being surveyed registers criticism of its banker. The results are provided in Tables 10 to 17. It may be observed from these results that exporters have been consistently been liberal in awarding "excellent" grade to their associated main bank branch in case their addresses had been provided by their respective bank branches.

The percentage of such bias as high as 35 per cent at all India-level.[30] It is relatively in the case of west (53 per cent) and low in the case of north (16 per cent). Across size categories, the medium exporters tend to provide relatively high overestimate (47 per cent) as compared with large exporters (16 per cent). Across associated banks, a high bias of 79 per cent is observed in the case of private bank compared to a negative bias (-38 per cent) in the case of foreign banks. This implies that the foreign bank-address-provided exporters have awarded relatively few "excellent" grades as compared to those banking with foreign banks but whose addresses have been procured from other than their bank sources. In the case of product categories, relatively high bias is observed in the case of exporters of diamonds, gems and jewellery (136 per cent) as compared to exporters of chemicals (31 per cent).

[30] The percentage bias is computed by comparing the percentage difference between the proportion of "excellent" grade awarded by "certain group" of bank-provided address exporters with the proportion of "excellent" grade provided by the similar group of exporters whose addresses have been taken form other than their bank sources.

Table 10: Regionwise Percentage Distribution of Exporters by Overall Satisfaction from Bank and other than Bank Sources

Region	Exporters Source	Poor	Average and Good	Excellent	Total
North	From Bank	5.3	66.3	28.4	100.0
	Other Sources	3.0	72.6	24.4	100.0
East	From Bank	7.9	76.2	15.9	100.0
	Other Sources	2.9	86.3	10.8	100.0
West	From Bank	2.1	68.1	29.8	100.0
	Other Sources	1.0	79.4	19.5	100.0
South	From Bank	0.0	69.2	30.8	100.0
	Other Sources	2.5	74.5	22.9	100.0
All India	From Bank	3.7	68.4	27.8	100.0
	Other Sources	2.2	77.2	20.7	100.0

Table 11: Regionwise Bias in Overall Satisfaction of Exporters from Bank and other than Bank Sources

Region	Poor	Average and Good	Excellent
North	73.6	-8.6	16.4
East	175.8	-11.7	47.1
West	104.3	-14.3	52.7
South	-100.0	-7.1	34.2
All India	72.2	-11.3	34.6

Note: There is no Exporter in Bank list Southern Region giving Poor Rating

Table 12: Sizewise Percentage Distribution of Exporters by Overall Satisfaction from Bank and other than Bank Sources

Size	Exporters Source	Poor	Average and Good	Excellent	Total
Small	From Bank	5.1	74.6	20.3	100.0
	Other Sources	5.1	79.4	15.4	100.0
Lower Medium	From Bank	4.0	64.9	31.1	100.0
	Other Sources	1.6	75.6	22.8	100.0
Medium	From Bank	4.0	65.3	30.6	100.0
	Other Sources	2.3	76.9	20.8	100.0
Large	From Bank	2.4	75.6	22.0	100.0
	Other Sources	1.0	80.0	19.0	100.0
All Sizes	From Bank	3.7	68.4	27.8	100.0
	Other Sources	2.2	77.2	20.7	100.0

Table 13: Sizewise Bias in Overall Satisfaction of Exporters from Bank and other than Bank Sources

Size	Poor	Average and Good	Excellent
Small	-1.1	-6.1	31.8
Lower Medium	146.6	-14.1	36.3
Medium	77.4	-15.0	47.1
Large	136.2	-5.5	16.0
All Sizes	72.2	-11.3	34.6

Table 14: Bankwise Percentage Distribution of Exporters by Overall Satisfaction from Bank and other than Bank Sources

Bank Type	Exporters Source	Poor	Average and Good	Excellent	Total
SBI and Associate Banks	**From Bank**	2.4	74.8	22.8	100.0
	Other Sources	1.5	78.1	20.4	100.0
Nationalised Banks	**From Bank**	4.2	66.8	29.0	100.0
	Other Sources	2.7	76.5	20.8	100.0
Private Banks	**From Bank**	5.1	59.3	35.6	100.0
	Other Sources	1.9	78.3	19.9	100.0
Foreign Banks	**From Bank**	0.0	85.0	15.0	100.0
	Other Sources	0.0	75.9	24.1	100.0
All India	**From Bank**	3.7	68.4	27.8	100.0
	Other Sources	2.2	77.2	20.7	100.0

Table 15: Bankwise Bias in Overall Satisfaction of Exporters from Bank and other than Bank Sources

Bank Type	Poor	Average and Good	Excellent
SBI and Associate Banks	57.3	-4.2	11.8
Nationalised Banks	58.0	-12.8	39.5
Private Banks	172.9	-24.2	79.1
Foreign Banks	N.A.	12.0	-37.9
All India	72.2	-11.3	34.6

Note: There are no Exporters from Bank as well and other sources giving Poor Rating.

Table 16: Productwise Percentage Distribution of Exporters by Overall Satisfaction from Bank and other than Bank Sources

Products	Exporters Source	Poor	Average and Good	Excellent	Total
Readymade Garments	**From Bank**	2.5	63.6	33.9	100.0
	Other Sources	2.4	71.8	25.9	100.0
Textiles	**From Bank**	1.4	80.8	17.8	100.0
	Other Sources	2.2	84.9	12.9	100.0
Leather Products	**From Bank**	6.6	63.9	29.5	100.0
	Other Sources	2.2	80.4	17.4	100.0
Diamonds, Gems & Jewellery	**From Bank**	0.0	56.3	43.8	100.0
	Other Sources	1.4	80.0	18.6	100.0
Chemicals	**From Bank**	0.0	79.2	20.8	100.0
	Other Sources	1.7	68.3	30.0	100.0
Handicrafts	**From Bank**	6.4	64.9	28.7	100.0
	Other Sources	0.7	80.1	19.2	100.0
Agro-products	**From Bank**	2.4	70.7	26.8	100.0
	Other Sources	4.6	72.8	22.5	100.0
Engineering Products	**From Bank**	6.1	71.2	22.7	100.0
	Other Sources	1.9	83.9	14.2	100.0
Other Products	**From Bank**	7.1	64.3	28.6	100.0
	Other Sources	1.6	71.7	26.8	100.0
All Products	**From Bank**	3.7	68.4	27.8	100.0
	Other Sources	2.2	77.2	20.7	100.0

Table 17: Productwise Bias in Overall Satisfaction of Exporters from Bank and other than Bank Sources

Products	Poor	Average and Good	Excellent
Readymade Garments	8.1	-11.4	31.0
Textiles	-36.3	-4.9	38.0
Leather Products	201.6	-20.5	69.7
Diamonds, Gems & Jewellery	-100.0	-29.7	135.6
Chemicals	-100.0	15.9	-30.6
Handicrafts	831.9	-19.0	49.8
Agro-products	-47.4	-2.9	19.2
Engineering Products	213.1	-15.1	60.1
Other Products	353.6	-10.3	6.7
All Products	72.2	-11.3	34.6

Note: There are no Exporters from Bank corresponding to Diamonds, Gems and Jewellery, and Chemicals giving Poor Rating.

4.2.5 Suggestions 'At a Glance' to Improve the Export Credit Delivery System

(Compiled from those exporters who ranked 'very poor' and 'poor' to their present bankers in response to Question 42)

Attention Areas

1. Avoid Collateral Security
2. Reduce interest rates on export credit
3. Reduce documentation
4. Provide competent staff to handle export credit as lack of coordination among bank authorities prevails
5. Banks should follow RBI guidelines not their management code
6. More powers should be delegated to bank branches so that bank branches should act and behave like business centres
7. Avoid insistence on ECGC cover
8. Adequate or need based credit should be available
9. Reduce margin stipulated and bank processing charges

Suggestions to Improve the Export Credit Delivery System
(Compiled from those exporters who rated their present bankers' — 'Poor')

Bank Group	Region	Product	Suggestions
SBI and Associates	South	Textiles	Reduction in rate of interest would be a great help to exporter.
SBI and Associates	South	Textile Machinery	i. Collateral security should be avoided. ii. Export credit should be on past performance.
SBI and Associates	**East**	Jute Products	Bank should look after the potential smaller party and cater to their needs by giving good services.
SBI and Associates	North	Cycles	i. Paper work involved in availing limits should be reduced. ii. Staff should be competent in handling the export business. iii. Bank should not charge different rates of interest, processing charges and courier charges. iv. Banks should follow RBI codes rather than their management codes.
SBI and Associates	North	Engineering Products	There should not be too much insistence on stock statements on purchase order in hand and other documents, which they never read. Even after giving huge collateral security and ECGC cover, if the exporter does not get money in time it will be better take loan from open market.
SBI and Associates	West	Readymade Garments	No suggestions
SBI and Associates	South	Silk	i. There should be transparency in bank transactions. ii. Credit delivery system should not be very lengthy.
SBI and Associates	North	Readymade Garments	i. Rigidity about guidelines should not be there. ii. Bank officials should use discretionary powers and avoid unnecessary paper work
SBI and Associates	North	Readymade Garments	i. There should be co-ordination among different bank departments. ii. Packing credit should be given on confirmed LC. iii. Banks should not insist for Collateral security iv. Banks should give liberal and timely export credit.
Nationalised Banks	West	Textiles	i. Interest rate on Export Credit should be reduced. ii. There is no need of ECGC policy. iii. Documentation should be less. iv. Bank should work more efficiently while dealing with export credit system.

Bank Group	Region	Product	Suggestions
Nationalised Banks	North	Rice	i. Basis of sanctioning credit limit should not be based on the past performance of the party. Rather, it should be based on the factors like prospects of export, credibility of the party and capacity to export. ii. Rate of interest should be lowered. iii. Banks should come forward to help the business and help in overcoming the difficulties instead of shying away and making it difficult to borrow. iv. RBI should see that the exporters should not suffer.
Nationalised Banks	South	Textiles	Banks should encourage the exporters.
Nationalised Banks	South	Readymade Garments	i. Bank has to be responsive to any guideline form RBI like interest rate reduction. ii. The 26th September 2001 guidelines have been in effect only from 5th December 2001 even though it is on retrospective effect.
Nationalised Banks	North	Readymade Garments	i. Processing of loan applications should be timely. ii. More powers should be delegated to branches. iii. Banks should act and behave like business centres. Their attitudes have to be changed. They think they are doing favours to customers while extending limits to them.
Nationalised Banks	North	Diamonds, Gems & Jewellery	i. There should be just one paper for renewal. ii. There should be one window system. iii. Health code should not be revised when it is not used.
Nationalised Banks	West	Handicrafts	i. ECGC should not be compulsory. ii. Premium of ECGC should be lowered. iii. There should not be interest on the premium. iv. Delay in dialogue between RBI and bank causes delay in settlements. Therefore banks should be given the liberty to make decisions.
Nationalised Banks	North	Sports Goods	i. Rate of interest should go down. ii. Branch staff should be experienced enough to handle export related matters and be productive.
Nationalised Banks	North	Leather Products	i. Bank should take less time in getting approval so that exporter does not loose time and also the bank should be more liberal in knowing about the buyer ii. Bank should not press for ECGC cover, instead bank itself should give export cover.
Nationalised Banks	North	Leather Products	i. Bank staff should be trained to deal with export proceeds. ii. Government should allow sending documents directly by exporters to overseas buyers.
Nationalised Banks	South	Coir Products	No suggestions

Bank Group	Region	Product	Suggestions
Nationalised Banks	South	Coir Products	i. Banks should also increase the credit limit whenever they ask for increase in collateral security and ECGC cover. ii. Bank charges should be uniform — our banker always charge more in comparison to State Bank of Bikaner and Jaipur & State Bank of India bank in respect of PCL.
Nationalised Banks	East	Engineering Products	Attitudes of the bank staff towards their clients need to be changed.
Nationalised Banks	East	Engineering Products	i. Credit sanctioning should be speedy. ii. They do not want to enhance our limits, as chief manager wants to play safe. They are insisting for further collateral for enhancement. At present our fund-based limits are Rs. 310 Lakhs and against that they have Rs. 119 Lakhs worth of Property Rs.16 Lakhs worth of FDR. This amounts to cover 45% of collateral. iii. Banks discourage us to operate EFC account and always put obstacles. Their contention is that they loose currency spread. iv. EFC accounts operations are delayed extraordinarily as they are routed through their head office. And amount charged on each EFC transactions should be reduced. v. They always want to put obstacles whenever a new issue comes up, they are just worried about protecting their skins. Least bothered about hardships to exporters or loss to the country. vi. They take too long to issue Bank Certificate. vii. Delay in dispatching documents to foreign buyer or bank is very slow. viii. We applied for a set O/F to RBI through our bank, but our bank officers were non co-operative and delayed the matter by over three months and harsh us in all possible ways even after RBI approval. ix. Behaviour of bank staff should be improved. x. Our buyer wanted to have ESCROW account but our banker did not allow the same on flimsy grounds. xi. We do not get good exchange rates.
Nationalised Banks	East	Jute Products	Credit should be released immediately and credit limit should be increased for non-defaulting cases.
Nationalised Banks	East	Leather Products	i. Credit limit should be sanctioned within 30 days from the submission of data. ii. Amount of Collateral security should be reduced. iii. Whenever we negotiate big deals we are not properly funded by banks or else we are not allowed to avail ad-hoc limit on a regular bases.
Bank Group	**Region**	**Product**	**Suggestions**
Nationalised	East	Leather	Limit should be based on grievance volume.

Banks		Products	
Nationalised Banks	East	Leather Products	i. Collateral security is a major problem. ii. Sanctioning and disbursement process must be fast. iii. Timely credit should be available.
Nationalised Banks	East	Textiles	Banks should have friendly attitude towards small exporters and should encourage them.
Nationalised Banks	North	Engineering Products	Bank should ensure timeliness (most important in export sector)
Nationalised Banks	West	Hosiery	Packing credit limit should be provided to each and every exporter on annual credit basis (125 % of the previous year export transactions).
Nationalised Banks	West	Hosiery	Packing credit limit should be provided on annual basis.
Nationalised Banks	North	Readymade Garments	Quality of staff and the services provided by them should be improved
Nationalised Banks	North	Readymade Garments	i. Interest rate should be lowered. ii. PCL should be more simplified.
Nationalised Banks	North	Electronics	No Suggestions
Nationalised Banks	North	Handlooms	Bank should enhance the credit limit without collateral security.
Nationalised Banks	North	Handlooms	No comments
Nationalised Banks	West	Engineering Products	i. Bank staff should be trained and educated about the difference in export credit and normal term loan. ii. All banks should understand that export credit especially to merchant exporter is need based and immediate sanction is essential. iii. All preferences should not be on paper; banks should immediately sanction credit against LC. iv. Collateral security should not be there
Nationalised Banks	South	Spices	Bank staffs are irresponsible; they should be more efficient.
Nationalised Banks	South	Coffee	i. Banks should provide timely help in export credit related matters. ii. All commercial banks should follow and implement RBI guidelines.
Nationalised Banks	South	Readymade Garments	i. Sanction and disbursement of credit should be timely. ii. Margin should be reduced. iii. Adequate credit should be made available.
Nationalised Banks	South	Readymade Garments	Credit limit should be sanctioned against the LC.

Bank Group	Region	Product	Suggestions
Private Banks	West	Dyes & Chemicals	i. Interest rate on Export Credit should be reduced. ii. Bank charges should be subsidised. iii. Commercial skills of the bank staff need improvement. iv. More qualified staff should be employed in export credit department.
Private Banks	North	Carpets	No suggestions
Private Banks	South	Seafood	i. Bank should fully support the exporters. Bank must sanction the credit limit as per requirement of the exports. ii. Banks branches should be given more autonomy and delegated powers should be implemented more efficiently. iii. Credit disbursement should be at least equal to the amount of collateral security. iv. The Bank should extend credit in any new scheme for payment to the fish processing labourers, particularly to small exporters. This will help in financing and extending the volumes of fish exports.
Private Banks	East	Jute Products	i. Processing charges should be brought reduced. ii. Collateral security should not be made compulsory. iii. PLR of our some private banks is very high compare to Nationalised bank
Private Banks	West	Hosiery	No suggestions
Private Banks	West	Textiles	i. Collateral security should be done away with. ii. Sanctions should be directly related to the progress in performance.

Chapter 5 - Interpretation of the Survey Results

5.1 Scope of the Study

The present survey is an attempt to analyse the existing export-credit delivery system in India. The focus has been on short-term working capital credit requirements of the Indian exporters, which are mainly taken care of by the scheduled commercial banks. These banks provide exporters with financial and other services. While the financial services include provision of export finance, other services include handling of export documents, counselling and advisory services, facilitating foreign exchange operations of exporters, etc. The foreign exchange operations of the banks are guided by the RBI and FEDAI regulations.

Around the world, exporters enjoy various types of subsidies from their respective governments. Certain subsidies may provide excessive protection to domestic industries and act as barriers to free trade. As detailed out in Chapter 2, WTO Agreement on Subsidies and

Countervailing Measures (SCM) addresses the implementation issues relating to subsidies in general. Subsidies based on export performance fall under the “prohibited” category. Various developing countries, including India, get “special and differential treatment” and can maintain such subsidies subject to the fulfilment of certain conditions. However, importing countries are permitted to countervail the use of prohibited subsidies provided under the special and differential treatment only if these cause adverse effects to importing countries’ interests. Studies need to be undertaken on a continued basis to update the evaluation of potential risks of countervailing measures as well as identify Harmonised System trade sectors that are likely to be affected now or in the future.

Keeping in view the objectives of this study, a cluster approach has been chosen to collect information from bankers and exporters. Thirty-two export products/ categories were identified for the study clustered in twenty-nine cities/towns. A selected export product/category may be produced in one or more cities/towns and a city/town may be having cluster(s) of one or more export products / categories. A total of 57 export production clusters have thus been chosen for this study. It was decided that the survey would include 300 bank branches 1680 exporters.

Getting the requisite information from 300 bank branches and 1680 exporters from all over the country is a challenging task. Separate Questionnaires were designed for bankers’ and exporters’ responses, respectively. A schedule-structured personal interview approach was chosen to collect primary data. This is a less flexible approach of personal interviews since the number and wording of questions remain identical for all the respondents. However, its merit lies in the fact that the interviewer is not permitted to rephrase a question and hence interpretation and reporting bias of interviewers’ is minimised. Even the sequence in which the questions are asked remains the same in every interview. The variations between responses can thus be fairly attributed to the actual differences of opinion between the respondents and not to variations in the interview itself.

The present study provides a detailed discussion of the results based on responses of surveyed bank branches and exporters. Various aspects relating to bankers’ adherence to the prescribed guidelines and exporters’ satisfaction with the export credit delivery system in India was detailed out. The important result is that majority of the banks claim to be adhering to the RBI and FEDAI norms and a majority of the exporters are generally satisfied with the existing credit delivery system. In the following sections, we would make an attempt towards interpreting salient features emerging from the detailed discussion presented in Chapter 4.

5.2 Spread of Banks in the Sample

An effort has been made to include an assorted sample of bank branches across 28 major Indian towns / cities. Representation has been given to all nine banks of Group 1 (SBI and associates), 19 banks from Group 2 (nationalised banks), 28 banks from Group 3 (private Indian banks) and 21 banks from Group 4 (foreign banks).

Among the bank branches surveyed, more than half turn out to be from Group 2, one-fifth for each of Groups 1 and 3, and less than 8 per cent from Group 4. West constitute about 35 per cent of the bank branches sample, north 30 per cent, south 25 per cent, and east only 10 per cent.

The nationalised bank branches (Group 2) dominate across each of the four regions with north having nearly three-fifths of its total fleet of surveyed bank branches from Group 2, with east and west each having nearly half of their total surveyed branches falling in this Group. The nationalised bank branches constitute only 45 per cent of all the branches surveyed in south.

While SBI and associate bank branches (Group 1) constitute the second most important group in numbers, after nationalised bank branches, across north and east with each containing nearly one-fourth of its surveyed branches falling under this Group. Interestingly, private Indian bank branches (Group 3) constitute the second most important group across west and south (24 and 29 per cent, respectively).

5.3 Spread of Major Export Clusters in the Sample

In this section, we provide a broad outline of the 57 export clusters that spread over 29 Indian towns / cities chosen. The selected export clusters encompassed broad categories of export product. Among the three major export categories of India, viz. *textiles, readymade garments, and diamonds, gems and jewellery,* north has a major cluster of exporters of *readymade garments* in and around Delhi. East has a major cluster of *textile* exporters in and around Kolkata. West has various important export clusters with *textile* exporters in Ahmedabad, Mumbai and Surat, *readymade garments* in Mumbai, *diamonds, and gems and jewellery* in Jaipur, Mumbai and Surat. South has significant export clusters of *textiles* in Chennai and *readymade garments* in Bangalore.

Handicraft export clusters are spread over Bhadoi, Moradabad, Ludhiana and Panipat in north, Jaipur in west, and Chennai, Mysore and Tripur in south.

Clusters of exporters of *engineering products* are spread over Faridabad, Gurgaon, Ludhiana and NOIDA in north, Kolkata in east, Mumbai, Pune and Surat in west, and Coimbatore, Bangalore and Guntur in south.

Exporters of *agro-products* are clustered around Amritsar in north, Kolkata in east, Indore in west, and Bangalore, Guntur and Kochi in south.

Clusters of exporters of *chemicals* have been included from Ahmedabad and Pune in west and Hyderabad in south.

Leather products are mainly exported from Agra and Kanpur in north, Kolkata in east and Chennai in south.

"Other products" group including *aluminium, cycles, granite, iron ore, sea food, silk and sports goods* have export clusters in around Jalandhar and Ludhiana in north, Bhbaneswar in east, Jaipur in west, and Kochi, Mangalore and Mysore in south.

5.4 Bankers' Export Credit Operations

Commercial banks provide export finance at a rate lower than their prime lending- rate. With progressive deregulation of interest rates, banks now have considerable flexibility to decide their deposit and lending rate structures and manage their assets and liabilities more efficiently. On the lending side, banks are free to prescribe their own lending rates including the Prime Lending Rate (PLR). On the deposit side, banks have been given the freedom to offer a fixed rate or a floating rate subject to the approval of their Boards.

The rupee export credit interest rate structure was changed with effect from May 5, 2001 by providing ceiling rates linked to the short-term PLRs of the banks. This was expected to introduce healthy competition and provide exporters a greater choice to avail of banking services in terms of interest rate, quality of service and transaction costs. The RBI effected a reduction in ceiling rate on export credit by another 1 percentage point (i.e. up to 2.5 per cent less than short-term PLR) across the board on September 26, 2001, which would remain valid up to September 30, 2002.

The priority sector lending is an important function of India's commercial banks' operations. It includes lending to agriculture, small-scale industries (SSI), transport operators, etc. It is 40 per cent of net bank credit for all Indian banks. Export credit is over and above the priority sector and has a minimum norm of 12 per cent. The foreign banks operating in India have to allocate at least 32 per cent of their net bank credit (NBC) to priority sector and export finance with sub-sectoral targets of 10 per cent for SSI and 12 per cent for exports. The proportion of gross bank credit allocated to exports has witnessed significant changes during the last two decades. It increased from less than 6 per cent in the mid-1980s to over 12 per cent by the mid-1990s with a downward trend toward 10.5 per cent during the late 1990s. The share of export credit to total exports has been about 25 per cent during 1980-81 to 1999-2000. While it was about 24 per cent in the 1980s, it increased to about 26 per cent in the 1990s. There has been a general decline in this ratio from over 29 per cent during the late 1980s to less than 24 per cent during the late 1990s.

Banks have been found to be granting export credit for the working capital needs of a vast majority of exporters. Except for some apparent hesitation on the part of foreign banks, various bank groups cater to the needs of new exporters. Apart from certain important criteria regarding financial standing of the export unit asking for finance, nearly 84 per cent of all the bank branches have been found skirting the RBI suggestion with regard to "no insistence" on *collateral security*. Relatively more frequent occurrence of this situation across regions is bank branches in north while across bank groups nationalised and private bank branches have been observed behaving like this. Bank branches in east and foreign banks across the country are relatively conservative in catering to the needs of small exporters, i.e. with export turnover of less than Rs. 50 lakh. Nearly half the bank branches have reported no fixed target of achieving export credit disbursal during the year 2000-01.

A Bankers' Adherence Index (BAI) to the RBI guidelines has been prepared using and integrating bits and pieces of information "self-revealed" by the bank branches. At the all-India level, about 8 per cent of bank branches fall under the *poor* category with regard to their adherence to the RBI's guidelines for export credit delivery system. About 14 per cent of the bank branches get *excellent* grade. About 21 per cent of all the bank branches turn out as *average* and 57 per cent as *good*.

Analysing the *excellent* grade for different groups of banks, foreign banks stand apart with a distinction. About 29 per cent of all the foreign bank branches under survey qualify as *excellent*. In the case of SBI and associate branches as low as 6 per cent turn out as *excellent*. The nationalised and private bank branches are "revealed" mediocre performers with less than 15 per cent turning out as *excellent*.

5.5 Exporters' Satisfaction with Export Credit Delivery System

Nationalised banks are leaders in providing export finance, followed by SBI and associates, private banks and foreign banks. Nearly one-sixth of exporters find pre-shipment sanction grant application form "difficult" and "very difficult". Relatively large proportion of small and lower-medium exporters find this form difficult. With regard to the bank group association, exporters associated with nationalised banks are relatively least satisfied and those associated with foreign-banks are most satisfied.

Nearly one-third of all exporters feel that linking export credit provision to collateral security is a major problem. A larger proportion of exporters in north and east finds this to be a problem as compared with exporters of west and south.

ECGC cover is the most preferred alternative to collateral security followed by confirmed orders / LCs, financial position of the company; past track record, personal guarantees by directors / partners.

Nearly two-third of the exporters feels that facility to interchange between pre- and post-shipment credit limits will help exporters.

One of the most important findings of this study has been that more than three-fourths of exporters are satisfied with overall level of satisfaction with the bank services relating to export credit delivery. Nearly one-fourth of exporters has perceived it as "excellent" and more than half as "good". The only exception is eastern region where only one-eight perceive it as "excellent" and less than half as "good".

On one hand relatively low proportion of small exporters has perceived bankers' performance as "excellent", whereas relatively high proportion of large exporters perceives it as "good". While a relatively high proportion of exporters of readymade garments has perceived bankers' performance as "excellent", relatively high proportion of exporters of textiles perceives it as "good".

5.6 Major Suggestions from the Study

It is not an easy task to extricate *select* suggestions from a study of this magnitude. Much depends on what aspect of exporters' satisfaction with the export credit delivery system is of special interest under some specific context. This makes all analysis attempted in Chapter 4 and tables attached with it as important. However, we would provide some broad comments as suggestions that distinctly come out of the present survey based study.

1. Foreign banks need to be advised to entertain new exporters.
2. Alternatives to collateral security must be found and fully made use of.
3. Small exporters need to be encouraged by foreign banks and east zone.
4. Bank branches must have their export credit `targets' compliant with the RBI guidelines.
5. Branches of domestic banks should be given higher export credit sanctioning powers, which is the practice followed by foreign banks.
6. Banks need to be instructed to accelerate processing of requests for credit limit beyond their sanctioning powers.
7. In the case of consortium finance, the banks must be instructed either to follow the assessment report prepared by the lead bank or in case they still insist on self-assessment the same should be done expeditiously.
8. Banks must be advised to continue with their normal credit sanctioning procedures, based on the client's goodwill and track record, even during the years of sluggish export growth.
9. In the case of exporters with good track record, the bank branch should have no objection to interchange between the pre- and post-shipment credit limits. Private banks need to be specially advised in this regard.
10. Banks must compensate exporters for any delay in crediting realised amount due to them in their accounts.
11. Small and lower-medium size exporters need to be helped in filling up of pre-shipment application form. The same is true for exporters of leather products, chemicals, and diamonds, gems and jewellery.
12. Small exporters need to be educated properly about information and documents required along with the export-credit application form. The same is true of exporters of chemicals and exporters associated with nationalised and foreign banks.
13. While exporters are generally satisfied with the method of assessment for their credit requirements, more attention needs to be paid towards exporters of east zone, lower-medium size, leather products, and those operating with nationalised banks.
14. Linking credit sanction to collateral security is a problem. In this regard, special attention needs to be paid towards north and east zones, medium and lower-medium size exporters, and exporters of leather products, "other products", and diamonds, gems and jewellery. Nationalised banks need to be dissuaded from overusing this instrument. Confirmed orders/LCs, ECGC cover and past track record are some of the alternatives banks should consider as alternative to collateral security.

15. Exporters need to be educated about the taking banks' assistance for timely claims from ECGC.
16. Exporters need to be apprised of seeking help from ECGC for getting adequate support for timely claim for defaulting cases.
17. Banks should organise exporters' meet on a regular basis.
18. Banks need to improve upon the following aspects:
    - Minimise delays due to procedures / indifferent staff attitude.
    - Improve upon computerisation and management information systems.
    - Introduce transparency in banks' operations.
    - Optimise use of their delegated powers.
19. Less satisfied exporters based on size, region, product category and association with bank group need to be paid more attention to their specific needs.
20. Some of the suggestions provided by 47 exporters who have granted "poor" and "very poor" to their level of satisfaction with export credit delivery system must be given a sympathetic hearing. Detailed comments on these suggestions are provided in sub-section 4.2.5.

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Annex – 1

Issues Relating to Simplification of Procedures for Hassle free Delivery of Export Credit

For Bankers

Issues relating to simplification of procedures for hassle free delivery of export credit

1. Application form to be simple
   - a) Banks to simplify application forms by reducing irrelevant data. What is the present data requirement.
   - b) Exporters not to seek outside assistance for completing the application Forms.
   - c) To provide guidance for completing the application
   - d) To provide facilitation mechanism for assisting exporter customers for initial scrutiny and requirement of additional data etc.
2. Sanction Process
   - a) Time taken for sanction of credit limits
     - i) For fresh loans/renewals with enhancements - 45 days after submission of complete details.
     - ii) For renewal of existing limits - 30 days.
     - iii) For ad-hoc limit - 15 days.
   - b) Under consortium/multiple banking arrangements - all banks to commence sanction process simultaneously.
   - c) Banks to collect the required details/information at one go and not to seek information on piecemeal basis.
   - d) Banks to use appropriate method for assessment of credit limit suitable to the exporters products.
   - e) Banks to allow continuation of limit in cases where renewal is delayed.
   - f) Pending renewal banks to provide ad-hoc for urgent needs of exporters
   - g) For exporters with good track record limit to be sanctioned for a longer period with flexibility for step up/step-down of limits within overall outer limits depending on pre-determined performance parameters.
   - h) Criteria for - providing running account facility
   - i) In case of seasonal commodity peak/non-peak limits to be provided.
   - j) Interchangeability between pre/post export credit limit to be allowed vice-versa.

k) Over and above the sanction limit bills under L/C. to be allowed for negotiation.

l) Term loan requirements of exporters to be considered.

3) Delegation of Sanctioning Authority

a) Banks to delegate higher sanctioning powers to branches for sanction of export credit.

b) Bank to reduce some of the intervening layers in the sanction process for reducing the time lag.

c) System of joint appraisal by officials of branch and control/administrative wing.

4) Adequacy of credit and period of credit

a) Adequacy of credit

i) Banks to provide need based credit.

ii) Credit not to be denied merely on the ground of non-availability of collaterals.

b) Period of credit

i) Period to take into account the production cycle of_product (to provide need based extension for maximum upto 360 days).

ii) Post-shipment credit period upto due date with provision for change of tenor at exporters need based request for a maximum period of upto 180 days from date of shipment.

5) Post sanction disbursement

i) Sanction to be conveyed in clear terms.

ii) In case of exporters with good track record not to insist on submission of order/LC at every disbursement but to obtain a periodical statement of orders on hand.

iii) Funds to be made available without any difficulty.

iv) Once the goods have been valued and cleared by the customs authorities banks not to insist on submission of original sale contract/confirmed order/Proforma invoice etc. for handling of documents unless specified in the L/C.

v) Banks to dispatch documents immediately.

vi) Banks to credit export proceeds quickly.

vii) In case of delayed credit banks to pay interest for the delayed period.

Other facilities/services

i) Bank/Control Office to arrange exporters meet for resolving common issues.

ii) Bank to provide Grievances Redressal System.

iii) Bank to provide assistance for early realisation of export proceeds through correspondent bank.

iv) Bank to have the approval of higher authorities for rejected proposal.

v) Bank to post-adequate staff in forex department duly trained and experienced.

vi) Bank to be fully computerised and SWIFT facility for quicker service.

For Exporters

Issues relating to simplification of procedures for hassle free <u>delivery of export credit</u>

1. <u>Application form to be simple</u>

   a) Simple and easy to fill up
   b) Filled by the exporter/with outside help.
   c) in case of outside help, cost
   d) Specialised branches to provide facilitation mechanism for assisting exporter customer for initial scrutiny and requirement of additional data etc.

2. <u>Sanction Process</u>

   a) Time taken for sanction of credit limits

      i) For fresh loans/renewals with enhancement.- 45 days after submission of complete details.
      ii) For renewal of existing limits - 30 days
      iii) For ad-hoc limits - 15 days.

   b) Under consortium/multiple bank arrangements - all banks to commence sanction process simultaneously.

   c) Frequency of visits to the branch at bank's request for sanction of credit limits - up to 5 visits to be considered as normal.

   d) Sanction terms to be conveyed clearly.

3) <u>Adequacy of credit/period of credit/line of credit</u>

   a) <u>Adequacy of credit</u>

      i) Need based credit to be provided
      ii) Credit not to be denied merely on the grounds of non-availability of collaterals.

   b) <u>Period of credit</u>

      i) <u>Pre-Shipment Credit</u>

In accordance with the production cycle of the product can be extended by banks up to 360 days in case of difficulties faced by the exporter.

      ii) <u>Post - Shipment credit</u>

      Up to due date of the bill - maximum upto 180 days from the date of shipment. (Tenor of the bill can be extended by banks in case of need at exporters request before due date for a maximum period of upto 180 days from the date of shipment)

c) Line of credit

Limits are generally renewed after a period of one year

i) In case of delay in renewal of limits existing limits allowed to be continued
ii) Urgent credit requirements to be met through grant of ad-hocs

d) Longer period of credit

Exporters with good track record to provide line of credit for longer period.
Facility for step-up/step-down in the limit to be provided at pre-detrimental performance parameters.

e) Interchangeability of limits

i) Adjustment of peak/non-peak limits to be provided
ii) Adjustment of pre-shipment/post-shipment limits depending on the need.
iii) When limits are full bills under L/C to be negotiated over and above the limit in case of need.

f) Term loan requirements

Bank to meet term loan requirements of the exporter for expansion of capacity, modernisation of machinery and up-gradation of technology.

4) Disbursement of export credit/credit of realised proceeds

i) Funds to be available immediately after sanction without any difficulty.

ii) For exporters with good track banks to waive submission of order/LC for every disbursement.

iii) Banks to obtain periodical statement of orders in hand.

iv) Export proceeds to be credited expeditiously.

v) In case of delay in crediting proceeds banks to pay interest for delayed period.

5) Handling of export document

Once the goods have been valued and cleared by the customs authorities banks not to insist on submission of original Sale contract/confirmed orders/Proforma invoice counter signed by overseas buyer/indent from authorised agent for handling documents except in cases where L/C contained specific stipulations.

6) Post-credit relationship

Other related services rendered by the bank to be satisfactory.

i) Quick dispatch of documents to overseas buyer's bank.

ii) Providing assistance for timely claim of insurance with ECGC.

iii) Providing assistance for taking up the issues with foreign correspondent banks in case of delay in realisation of proceeds.

7) <u>Other facilities</u>

i) Staffs at the branch to be well trained and experienced for handling export credit and other related matters.

ii) Branch to organise exports customers meet for resolving the general difficulties faced by the exporters.

iii) Branch to provide customer's grievances redressal system for attending to complaints.

iv) Branch to be fully computerised to have SWIFT facility for providing quick services.

8. Other Difficulties being faced by the exporters:-

1) Whether there is delay in getting the PP Forms counter signed by the Authorised Delaers.

2) In handling the export documents tendered after 21 days from the date of shipment.

3) In allowing reduction in value on account of cash discount on account of prepayment of usance bills.

4) In getting the variation in realisations accepted due to various factors as per terms of contract even after submission of documentary evidence.

5) In allowing reduction in value (subject to compliance with certain conditions) after submission of necessary documents.

6) In remitting the amount of export claims despite submission of necessary documents.

7) In getting the change of buyer accepted in case reduction involved is upto 10% of contract value despite submission of documents.

8) Delay in allowing `write off' within the ceiling limit (10% of annual average export turn over) after compliance with terms and conditions and submission documents.

9) In getting the remittances connected with exports (like commission, legal charges etc.) made after submission of necessary documents.

10) In allowing refund of export proceeds in respect of re-import of goods due to poor quality despite submission of necessary documents.

11) In the operations of EEFC accounts.

9. Any other issues/suggestions.